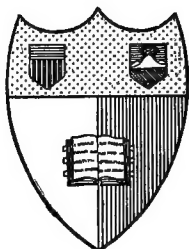


Putnam's
Handbook of
Buying
And Selling



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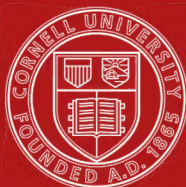
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Putnam's Handbook of Buying and Selling

Telling in a Simple and Practical Way
How to Succeed in Business

By
A. Frederick Collins
and
Virgil D. Collins

Illustrated

G. P. Putnam's Sons
New York and London
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1920

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To

CHARLES A. SCOTT

PREFACE

THIS book gives you the hard and fast methods of *modern merchandising*.

It is so simple that however little you know about business you can understand it, and it is so practical you can use it at once and with telling effect.

What we have written is the result of long years of experience in the merchandising field, that is, the buying and selling of goods. To make this book make you money:

(1) Read it through to understand it as a whole, and then read it through again and memorize the vital points in it.

(2) Look around and about you and see just how every *fundamental principle of merchandising* is applied by your successful competitors in your line of business.

(3) If you are *failing* in business find out why and how to remedy the situation, and

this you can do by seeing just where your methods are different from the *broad highway of success* which we have laid in this book.

(4) But if you are *prospering* read the following pages anyway and you will learn the secrets of bigger business and of greater success.

This book will start you *right* in the field of merchandising where ninety out of every one hundred men are failures. And they fail simply because they do not know the basic rules of the selling and buying game. It behooves you, then, to read this book and heed its precepts.

A. F. C.

V. D. C.

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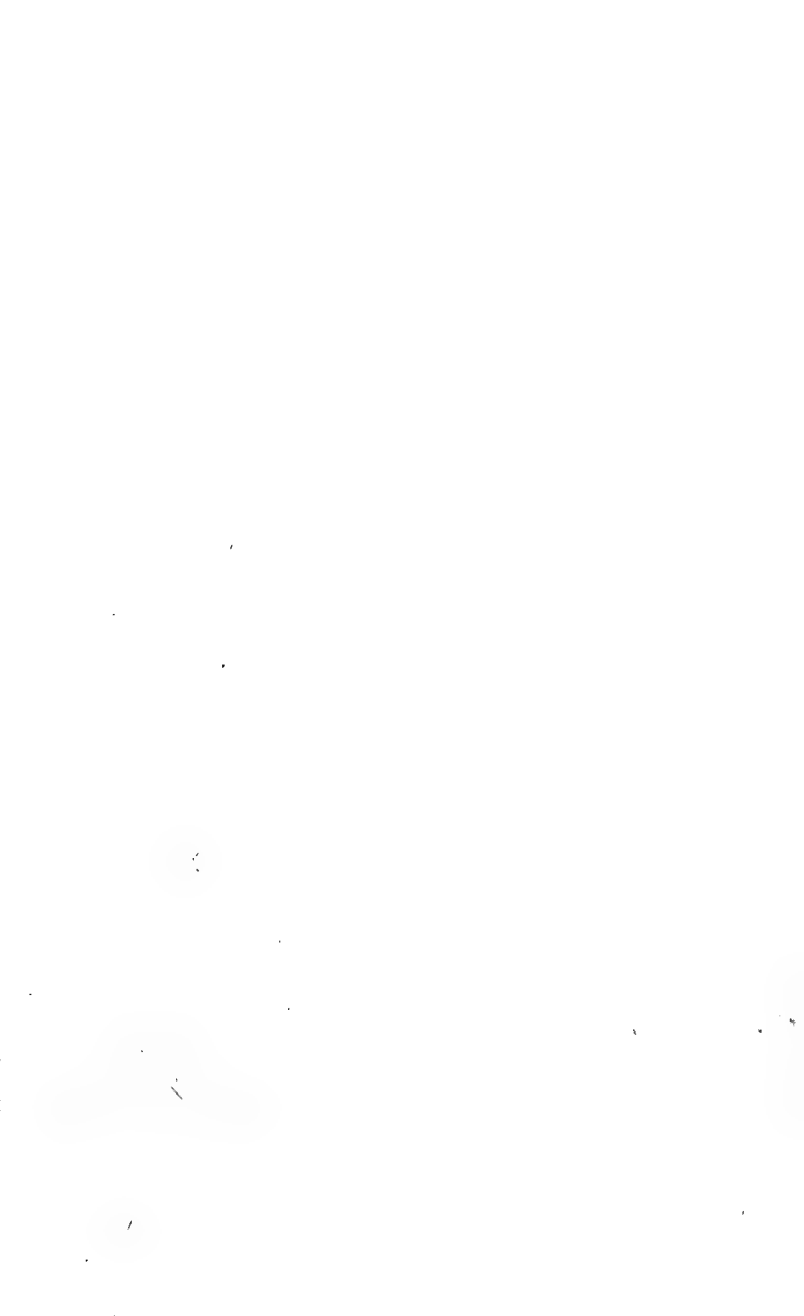
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Part I

Successful Selling

Putnam's Handbook of Buying and Selling

CHAPTER I

FIRST PRINCIPLES OF SELLING

Before Selling Was Invented—How Selling Came to be—What Salesmanship Is—The Natural Born Salesman—The Art of Salesmanship—The Science of Making a Sale—Getting Acquainted with your Customer—Attracting your Customer's Attention—Rousing your Customer's Interest—The Desire to Own—The Resolve to Buy—The Effect of Positive Suggestion—Knowing your Competitor's Goods—Various Kinds of Selling.

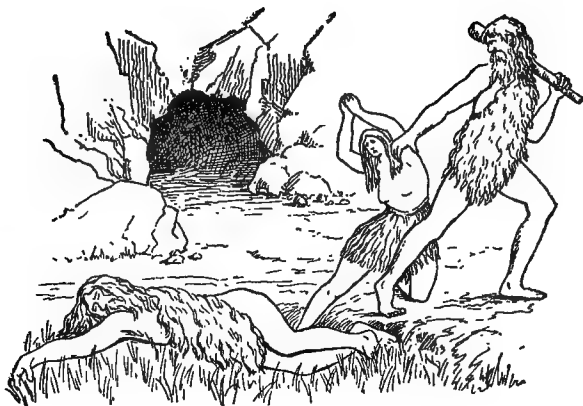
IN the long ago when man made his *debut* on the face of the earth his first crude thoughts were of possessorship. As there was nothing his neighbor had that he wanted except his daughter, he set out with a club, and he either brought her back to his cave or gave up his ghost in the attempt. There was no exchange here, fair or otherwise, but robbery pure and simple, yet it was the only way he knew to get what he wanted.

A good many thousands of years after when he had learned to make a few things out of feathers, bone, and stone, and he had developed the art of expressing his thoughts a little by *speech*, as we call it, he found it an easier, safer, and better policy all round to give the old man something first and so induce the latter to give him the girl in turn. In this primitive way, then, began, not only the fashion of matrimony, but what is of far more importance, the exchange of values that came to be known as *bartering*. See Fig. 1.

How Selling Came to be. Now bartering, as you have just seen, means to exchange or trade objects whose value is supposed to be equal, as, for instance, horses, or a piece of goods for a dozen of eggs.

Selling, on the other hand, is generally understood to mean the transfer of some kind of goods for *money*, and, indeed, money was invented to make the transfer of merchandise a simpler, easier, and cleaner-cut proposition. In the final analysis, though, the same fundamental principles that underlie bartering also obtain in selling.

Not only this, but what is just as true is that



A
Prehistoric Robbery

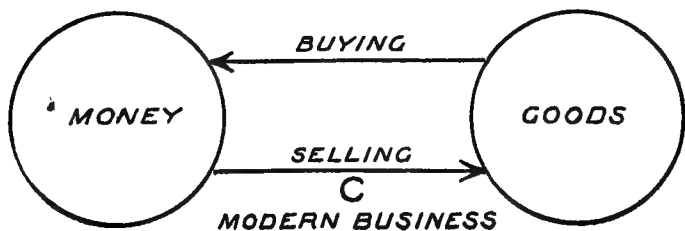
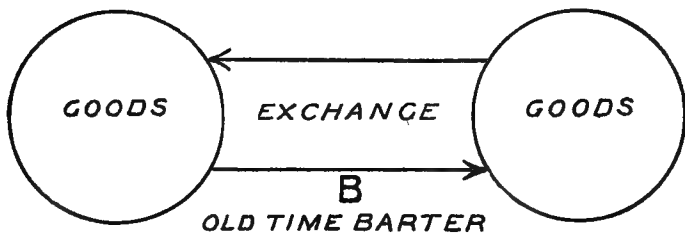


FIG. 1

human nature is the same now as it was in the stone age, and where the early savage tribes bartered for things of imaginary value such as charms, amulets, and fetishes, we moderns are just as prone to buy art objects, antiques, and the like merely because we think we want them and not for their intrinsic, or actual worth. And thus like the untaught savages we are apt to deceive ourselves, or let some salesman do it for us.

After the invention of *money* the transfer of goods from the seller to the buyer was an easy matter, and especially so when the prices of certain staple things got to be about the same everywhere, that is, the prices at which commodities were sold became more or less fixed. This being true it was soon found necessary to use persuasion if a man was to successfully sell his goods where he had active competition, or to put it another way, he had to show to all intents that his goods were cheaper, or better, or both, than the other fellow's and this was the beginning of what we call *salesmanship*.

What Salesmanship Is. Of course a *salesman* is a man who sells goods in a store, on the street, or by canvassing, and while all men who

sell are called salesmen, very few of them indeed have the faintest idea of what real *salesmanship* is or how to apply the principles of it.

Now let's see first just what salesmanship is. To explain it fully is the purpose of the first part of this book and, as you will learn as you read along, there is considerably more to it than simply handing out something in an original package and taking money for it. But it can be boiled down into a concise and fitting statement which expresses its basic element thus: *Salesmanship is the power to convince and cause buying action.* The Eternal selling circle shown in Fig 2 illustrates this.

The first thing, then, that you must know and practice and employ if you want to become proficient in the art of salesmanship is to make use of your *power to convince*. By this we mean that you must group your thoughts in logical sequence and then clothe them in language that carries conviction with them. In other words know what you are going to say and then put a *punch* in it when you do say it.

Human nature is like electricity in that there is only one kind, but like electricity also there are several phases of it, and this accounts for

Buying and Selling

the various attitudes of different buyers. A stereotyped talk based on the right lines of salesmanship is bound to get a favorable re-

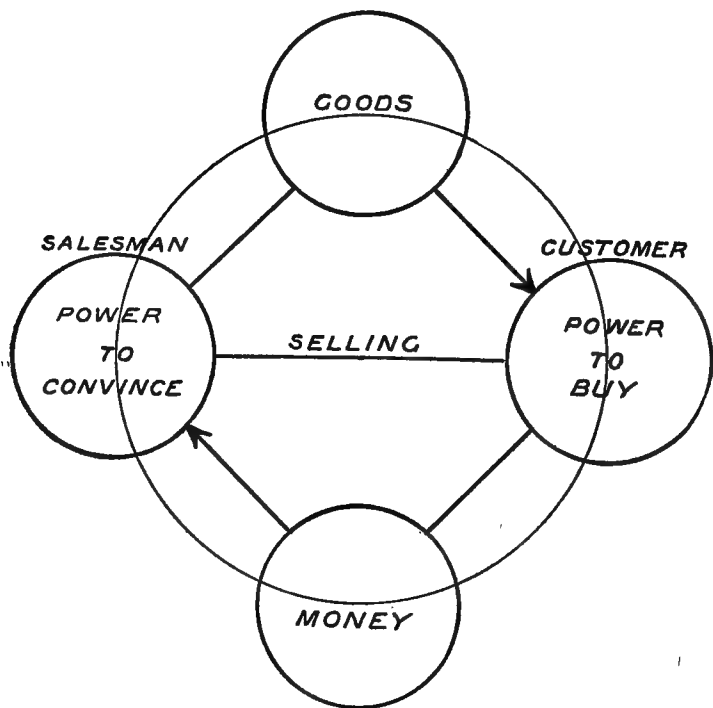


FIG. 2.—THE ETERNAL SELLING CIRCLE.

sponse from buyers as is evidenced by a patent medicine man who sells his wares from the tail end of a wagon. And he would sell them to all of his audience but for the fact that each

one has his own little peculiar phase of human nature.

This is the reason a selling talk that will convince one man may not be equally convincing to another man, but every man is susceptible from a selling point when you know his particular brand of human nature. To find out what his brand is, talk to him for awhile when it will crop out and you can then deliver the argument for which his case calls.

The Natural Born Salesman. Just as some men are natural born inventors, mathematicians, musicians, writers, etc., so many men, yes, most men, have a natural aptitude for selling—in fact, they are known as *natural born salesmen*. This is not at all strange when you consider that the human race has been bartering or selling the output of its hands, or brains, or both, ever since Adam.

A natural born salesman possesses innately the requirements of thought, speech, personality, shrewdness, and sticktoitiveness, to make him, for the time being at least, the superior of the buyer. It is when such a salesman begins to study the more or less scientific end of selling that he becomes a dominant factor in the

business world and his earning capacity runs up to five or six figures a year.

The Art of Salesmanship. If you are not a natural born salesman don't give up the ship because, as we said above, you have probably inherited your share of selling ability, and what you haven't inherited you can acquire through study and practice.

Now salesmanship in its fullest sense is a pretty complex thing but still it is scientific enough so that you can learn it just as you can learn physics, chemistry, or mathematics only it is easier and you get paid for it while you are learning.

Learning salesmanship, however, does not mean that you have to sell goods until you know how, though this is the usual way that salesmen are turned out, but very few of them rise above the level of mediocrity by this method.

To learn scientific salesmanship means that you take all the correlated facts that are known about the processes involved in selling and use them according to certain well-defined rules. Since these facts are largely founded on philosophy and psychology, salesmanship takes

on the aspect of a real science, if you please, and hence it can be treated as such.

The Science of Making a Sale. To put a selling proposition before a customer you must lead his mind through several successive stages, beginning with getting his attention, and ending with making him resolve to own that which you have to sell and finally, what is the really important part of the transaction, to part with his good money for it.

There are five vital steps through which your selling talk must pass if you are to make a sale. An ordinary salesman usually employs two or more of these steps, but a trained salesman uses all of them and in their logical order and unless he does so his chances are about as 1 is to 10 for making a sale.

These five stages are (1) the *introduction*, (2) *attention*, (3) *interest*, (4) *desire*, and (5) the *resolve to buy*, all of which are graphically shown in Fig. 3.

The Introduction. In this step you introduce yourself to your customer and you must take care to make a good impression on him for much depends on it.

If you create an unfavorable impression you

will have to fight the odds against it all through your next four steps, and since these depend on the unbiased attention of your customer you will find it mighty uphill work and in the majority of cases you will lose out.

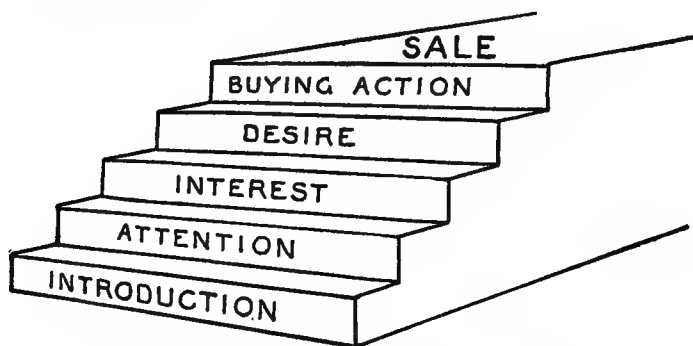


FIG. 3.—THE FIVE STEPS LEADING TO A SALE.

It is in this preliminary stage that you and your customer, if he is a new one, get acquainted with each other and in which he gets your mental number so to speak, that is, an impression of you; but it is not an altogether one-sided game for at the same time you size him up, conclude what nature and manner of man he is, and decide on the best method of attack. From this you will see that the better the impression you make on him the abler your deductions are concerning his idiosyncrasies.

Attracting your Customer's Attention. The quicker you can focus your customer's attention on the goods you are going to sell him, the better. There are two reasons for this, namely, (1) it takes his mind off of his own or someone else's goods, and (2) it starts a train of thought in him about your own goods.

It is your job to direct his thoughts into favorable channels which you do by literally jamming them into his head in the next three steps. To do this you must know two things and these are (1) what your customer wants and what he needs, and (2) what goods you have that meet his requirements and why they do.

A working knowledge of these points is absolutely essential for you to successfully carry on the next and fourth step; you will know part of the answer before you meet your customer and the next part of it you will decide by the evidence that you will be able to gather during the introduction step.

Rousing your Customer's Interest. To arouse and accelerate your customers' interest in the goods you are selling you must be interested in them yourself and know about their

manufacture and uses. From these facts you must pick those which you know will concern your customer and by your direct, elucidating, or ingenious manner, of describing your goods you soon grip your customer's interest as in a vise.

Some salesmen draw their customer's interest by a lot of palaver or irrelevant talk, and while this works in some cases the best policy is to stick to the goods at hand and make them the object of interest.

In the unsophisticated days of the horse-car, the kerosene lamp and the whatnot, a salesman, like the orator, always prefaced his subject by relating one of the seven original jokes or some modification of it, but in these times of airplanes, wireless, and player-pianos business men as a rule don't like things that are not to the point and to the purpose.

The Desire to Own. When you have thoroughly aroused your customer's interest in your goods his mind is in a highly receptive state for you to create a desire in him to own them. As we said before you must know what your customer wants and needs, also how and why your article suits his needs.

To make your customer want to own your goods you must show him the advantages that will accrue to him by owning them. When you see that you have fostered his desire to own them far enough you lead your customer without further parley into the fifth step which is

The Resolve to Buy. When you have led your customer's mind through the last four stages successfully it will be easy for you to bring this last and highly satisfying stage to pass, but you must in any event follow a definite procedure as in each of the other steps.

This you do by *positive suggestion*, that is, you skillfully inject into your customer's mind the suggestion that he buy the article; we say *skillfully* because any other method will make your customer, to put it figuratively, shy, rear up, and buck off of the saddle of your efforts.

The human animal we call *man* is just enough of an egoist not to want anyone to do his thinking for him and consequently the moment your customer realizes that you are doing his thinking for him it puts him in an aggressive state of mind instead of in a receptive mood.

The Effect of Positive Suggestion. While what we are about to say applies to the last step, that is *the resolve to buy*, still it holds good for all the other steps as well. By a *positive suggestion* we mean the art of influencing a customer by making statements which are always positive in value.

Never use a *negative suggestion* when you are making a selling talk. As an example, here is the way in which the sale of a car was lost by a negative suggestion. The salesman's line of talk had worked up a desire in his customer to own the car but when he reached step number five, that is where he was ready to close the deal, he offered a negative suggestion after this fashion: "Now, Mr. Brown, will you or will you not buy our car?" Mr. Brown having received the suggestion that he would not buy the car seized upon it and answered with an emphatic "No," and the sale was lost.

Now here is an illustration of positive suggestion: Another salesman selling Mr. Brown a different car the next day reached step number five and then he said gently but firmly: "Will you drive the car home yourself or shall I send it to your garage?" This suggests to

the customer that he is already the owner of the car and as a rule he will choose one or the other of the alternatives, thus closing the sale.

You observe that the salesman's question does not leave any opening for the customer to say, "No, I don't want the car," if he answers the question direct. A magnifying glass is not necessary to see the big advantage of having every statement you make a positive one.

Knowing your Competitor's Goods. It is not enough for you to know your own goods but you must know your competitor's goods as well. Take particular pains to discover why your goods are *better* than your competitor's and not why your competitor's goods are *worse* than yours. A salesman who *knocks* a competitor's goods by showing how much worse they are than his own often arouses in a customer a sense of distrust of the salesman and a spirit of sympathy for the poor competitor.

The customer quite rightly considers that the salesman is taking an unfair advantage of a rival who is not there to defend himself and such a feeling is not conducive to making a sale. To point out how your goods are better

than any of your competitor's is, however, not only legitimate but it does not leave an unfavorable impression, for again you are making positive statements.

The best policy is never to bring up your competitor's goods at all unless they are mentioned by the customer. Then in making comparisons don't point out the superiority of your goods over those of any one competitor, but make the comparison with the goods of all your competitors as a whole and without mentioning any names. This has a much better effect than bluntly and crudely pointing out why your goods are so much better than those of the *Silko Company*.

Various Kinds of Selling. There are two kinds of salesmanship and these are (1) the legitimate selling of articles of merit and (2) the bunko-selling of wildcat stocks, gold-bricks, the Brooklyn Bridge, and other like kinds of blue sky.

The first kind of salesmanship is the only one that pays in the long run because there are no come-backs. A salesman who sells only good goods is always known as a man of integrity. He keeps the friends he makes and

always has a job. He is in very truth a prince among men.

A salesman of goods having an imaginary value and sometimes existence is generally in disrepute and soon loses his friends, if he ever had any, is often without a job, and to say that his reputation is shady expresses the situation mildly.

His ability as a salesman is just as great and sometimes a little greater than the salesman who sells legitimate goods but his energies are misdirected and sooner or later he will meet with ruin. The idea we are driving home is *never to sell goods that you haven't absolute confidence in, and you'll succeed.*

CHAPTER II

HOW TO GET A MASTER SELLING FORCE TOGETHER

The Traveling Salesman Back There—The Need of Organization—The Value of Organization—The Organization of a Modern Selling Force—What the Sales Manager Does—Getting your Selling Force Together—On Hiring Salesmen—A Useful Question Form—Mapping out Territory and Routes—About Handling Side Lines—What System Does for Selling—The Card Index System—Doctoring up Sick Sales—Keeping your Force Going Strong—The Balanced Force—The Understudy System—The Competitive Spirit.

AFTER the Franco-Prussian War was fought in 1870, France was forced to pay Germany an indemnity of thirty million dollars. A transaction involving an amount of money of this magnitude was in those days quite beyond the grasp of the minds of most people and even among financiers it seemed a gigantic sum for one nation to have to pay to another.

To-day there are any number of going concerns in the United States whose profits annually exceed the above named amount while the war indemnities that Germany and Austria

must pay the Allies will run up into billions of dollars. From this it is clear that the commercial world has learned to think in billions as easily as it formerly thought in millions and as a consequence business has assumed a correspondingly greater magnitude as shown in Fig. 4.

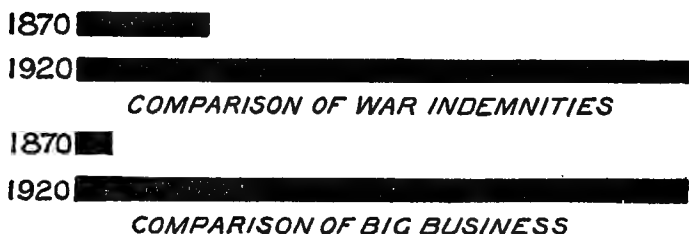


FIG. 4.—INCREASE IN MAGNITUDE OF BUSINESS IN PAST 50 YEARS

The Traveling Salesman Back There. In those *passé* days of loose ideas all kinds of businesses were run on a meager scale and an indefinite basis and hence there was scarcely any attempt made to organize a selling force nor was there any real effort made to systematize the selling of goods.

For instance a firm that employed traveling salesmen would send them out in a higglety-pigglety fashion with their ancient sample cases, and a very hazy idea of the territory

they were to cover. The rest was left to luck and the ability and honesty of the drummers, as they were called, themselves.

There was no way while the latter were on the road for a firm to ascertain even roughly the part each one of the above factors played in the results that he produced. Of course it was evident from the sales returns made by any one drummer when he had made good, but whether this was the result of genuine effort on his part or due to lucky chance, or to a combination of these elements, could not be determined with anything like a fair degree of accuracy.

Moreover most salesmen were prone to work their drawing accounts to the limit and, on top of this, their expense accounts often seemed, and were usually deemed, to be *padded* out of all proportion to the sales they made. If a drummer was honest, his accounts when checked against his sales would often put him in a bad light, while if he was dishonest he could more often *get away* with it.

These unjust conditions obtained because there was no means by which a firm could secure *bona-fide* information as to the actual state

of affairs under which a salesman was working and this prevented the members of it from doing anything more than making a guess at his real worth.

From all this you will readily see that there was much room and large opportunity for improvement, and firms which were pushing ahead and believed in a progressive policy began to inject the germ of organization into their various departments. The value of organization was so obvious it was soon realized that the selling force, which was the most important department of all, ought also to be organized, though this at first was a very difficult matter.

The Need of Organization. Clearly what was needed was some kind of an organization which would make it possible to weed out the chair users and account paddlers from the real workers of the selling force, for if this could be done it would, of course, greatly increase the efficiency of this departmental branch and, reciprocally, reduce the cost of selling.

Further such an organization would enable a firm to discover why sales sometimes dropped off unexpectedly in certain sections of the

country and why they picked up in other sections. And of even greater value it would enable the firm to predict beforehand the probable selling conditions that the salesmen would encounter and prepare them to meet the market, whether favorable or adverse, accordingly.

Naturally if an organization could be effected that would fulfill these conditions it would be of immense advantage to the firm having it, for it would permit it to keep a constant watch on and adjustment of the selling force and in this way it would prevent financial loss during slack times, and too, effectually and hence profitably meet booms in trade when they occurred.

The Value of Organization. Success in business as it is now carried on depends on organization, for without the latter there can be no placing of responsibility. The chief object of organization in business is that (1) there shall be no confusion in the performance of duties, (2) there shall be no overlapping of duties, and (3) that every department shall have a definite head upon whom the responsibility for its operation rests.

Such an organization is a valuable aid in any business, for it greatly facilitates transactions, however complicated they may be, and by means of it, flaws, faults, and mistakes can be discovered. Thus not only can the blame for their origin be fixed but, what is of more importance, they can be corrected or eliminated in time to prevent them from costing the firm money or, what amounts to the same thing, making the firm lose money.

The selling force, then, like any other department of a business, must be well organized in order that it can be made highly efficient—that is, so that it will do the most work and produce the greatest results in the shortest time, with the least trouble and at the smallest expense.

The Organization of a Modern Selling Force.

Now there are two kinds of selling forces and these are (1) the traveling force and (2) the stationary force. The purpose of this particular chapter is to tell you about the former while detailed information on the stationary force is given in the chapter on *Selling Over the Counter*.

It is a comparatively easy matter to direct

sales operations when you have the men right under your eye, so to speak, but it is a much more difficult performance to look after a force when the men who form it are a thousand miles away from you and scattered to the four corners of the States.

To get back to the point in question there are two chief parts to every selling force and these are (1) its brains and nerve center, by which is meant the *sales manager*, and (2) its body, and this is, of course, made up of the salesmen. Fig. 5 shows the organization of a traveling sales force.

A point to be remembered is that no matter how clever are the individual traveling salesmen of the selling force, if the latter hasn't an expert sales manager at its head it is like unto a perfectly good human body actuated by a half-witted brain. From this you can see that as much, if not more, judgment must be exercised in the selection of a master salesman for your sales manager than in the selection of the salesmen themselves.

What the Sales Manager Does. The sales manager, as you will gather from his title, has complete charge and control of the selling force.

It is his job to map out the territory and the disposition of the salesmen over it; it is he who

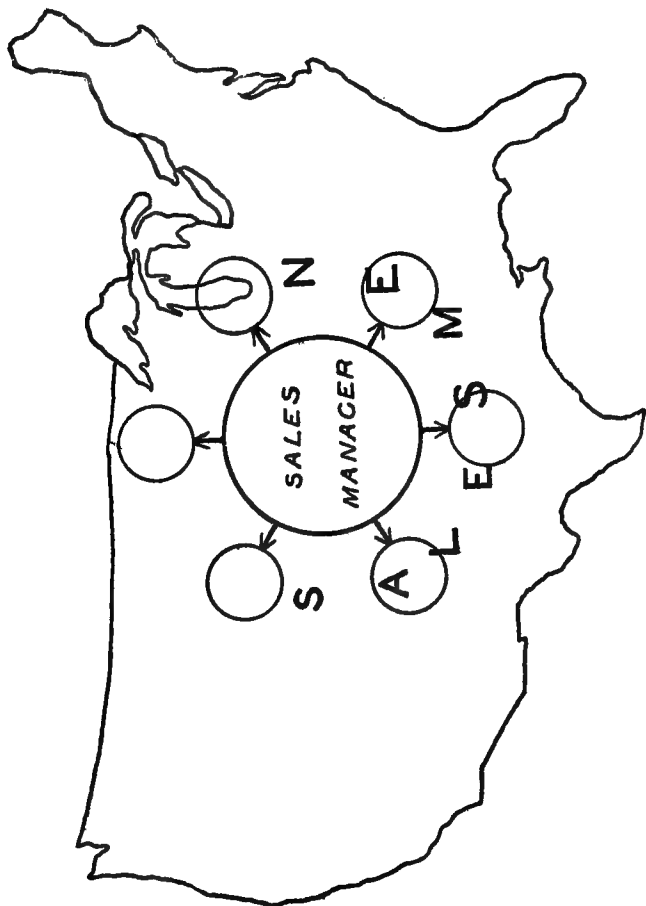


FIG. 5.—PLANETARY ORGANIZATION OF A SELLING FORCE.

creates the selling policy and builds up the selling schemes within his department. As a

matter of fact the sales manager does everything but go out and sell the merchandise himself, and sometimes he even does this.

To be able to do all of these things successfully the sales manager must, first of all, be a master salesman himself and second, since his success depends in a large measure upon how faithfully the salesmen who make up his force serve him, he must be a leader of men as well. This means that he must dominate the minds, command the respect, and have the confidence of his men at all times no matter where they are.

In the early days of sales organization the sales manager was usually looked upon by the selling force with disfavor, if not indeed with distrust, for to the old line drummer he seemed to be a meddlesome and wholly unnecessary adjunct. Gradually, however, it was found that the sales manager was not a stumbling-block in the salesman's path, but that his sole purpose was to work with and help him all he could.

Then as time went on the sales manager was looked upon by the salesmen under him with more and more favor, until now he is recognized

as an indispensable head of the organization for he is not only willing to solve the problems his men run up against, but assuming that he knows his job he knows just how to do this. In this and many other ways he takes a great responsibility from the shoulders of his force. Thus while the sales manager is first, last, and all the time a specialist in selling, he must also have a genius for organization.

Getting your Selling Force Together. When you are breaking into the field of merchandising and you want to get together a selling force the first thing to do is to secure a capable sales manager. Now while you might sometimes find it expedient to take on a more or less experienced salesmen, never engage a sales manager who is not experienced for no one can handle a selling force but an expert, and experience is the only school that turns out experts at the selling game.

In Chapter IV we have given a number of cardinal qualities that make for successful salesmanship and an efficient sales manager should have these qualities to a goodly degree plus an abundance of executive ability. He will then be able to direct salesmen under him

who are not so liberally endowed and under his guidance they may do nearly as well as he could do himself. So in selecting a sales manager satisfy yourself that you are getting the best you can afford and strain your exchequer to afford the best.

On Hiring Salesmen. As the head of the firm you will have personally to select the sales manager. If your judgment has served you well your troubles are over for he will be more competent to pick the rest of the selling force than you are.

Indeed this is a part of his job and you should by all means let him do it; further, since he is to be their director, and since they must recognize him as their supreme chief, it is only fitting and proper that he should not only choose but hire them. It is easy to see that if you take it upon yourself to hire them they will naturally consider you as the boss and while this may seem the logical thing to do, coöperation will fly out of the window and the future efforts of your sales manager will be less effectual.

The thing to do then is to give your sales manager full swing and let him hire the sales-

men, for then they will feel they are directly responsible to him and this desirable relation can be gained in no other way.

A Useful Question Form. A form embodying the following questions may prove of service in determining the merits of applicants, especially where you have to deal with a large number of them.

(1) State last position held and in what capacity.

(2) Give reason for leaving last position.

(3) The products you are familiar with and those you are capable of selling.

(4) Territories you are familiar with.

(5) References.

(6) Salary you expect.

Mapping out Territory and Routes. The next thing your sales manager does after he has hired the selling force is to map out the territory each man is to cover and to route it. In doing this he takes care that the allotments do not overlap each other and that the one given to each man is the one he is capable of covering the best.

Many a salesman has fallen down because he was given territory which he believed he could

not handle. The secret of successful selling depends to a very considerable extent upon the salesman's confidence in himself and the feeling that everything is right.

Being an old-timer at the game, the sales manager will assign each man to the territory for which he is best adapted, map out the routes, and figure out pretty closely what their expenses will be. After he has done all this he will submit his plan to you for your approval.

About Handling Side Lines. One thing both you and your sales manager must insist on, and that is your salesmen must not handle side lines, except a side line of joy. By this is meant that they must not carry other samples and try to sell other goods for other individuals or firms while they are working for you no matter how little of their time it takes.

The reason for this is that a salesman who handles a side line simply cannot give your business his whole-souled and undivided attention, and as a result your business will suffer.

Very often a salesman who handles a side

line will work for less money than one who does not, but in the long run you will find that he is not only expensive but actually detrimental to you. Your sales manager will make his men understand from the start that he will not tolerate side-liners and he will enforce this rule by discharging from the force any salesman, however good, who is found disobeying this order.

In more than one instance a salesman has started out for a firm who gave him a drawing account. In due time he took it upon himself to carry a side line simply to buy shoes for the baby. The next time we meet him his side line has become his main line and the latter has dropped into second place and the firm who financed him is getting a cold deal.

What System Does for Selling. System is a vitally necessary adjunct of organization. Where organization facilitates the transaction of business through the distribution of duties, system facilitates the transaction of business in virtue of reducing these duties and lightening them as far as possible.

Every sales manager has his own ideas as to the installation of a selling system and we can

safely say that there are at least a hundred different kinds in use. In general though they are all based on the same definite fundamental principle, and hence they are simply modifications, variations, and ramifications of the original principle. When your sales manager has put up his system to you and you have found it to be sound, let him go ahead and install it and use it in his own way.

The basic principle of selling systems is simply a means of keeping in touch with each salesman day by day. There is only one way to do this and that is by correspondence, or as it is called, *paperwork*. Now paperwork of any kind, however needful, is always a bugbear to everyone who has anything to do with it, and the larger an organization becomes the more paperwork is necessary to take care of it.

Not infrequently what would otherwise be a smooth-running piece of machinery becomes so clogged by its paperwork, which the system necessitates, that it stops the wheels of progress, as for instance is often the case in the army.

The more complicated the system that is used in selling, the more of the traveling sales-

man's time it takes from his work, the more time and space it takes up in the sales manager's office, and the harder it is to get at it when it is needed. Consequently an efficient system is one in which the paperwork is minimized to the greatest possible extent, and it is the concensus of opinion of sales managers that an *abridged card index* system provides this in the simplest and best way.

The Card Index System. There are three important items of information that a card index system must contain, and these are (1) a report of the sales made by the individual salesman; (2) a report on the prospective customers visited and in line for sales; and (3) a report of the expenses incurred by the salesman.

With this data received every day the sales manager can keep a close grip on the selling situation in the various territories his force covers and also on the individual work of each salesman.

A good form for this information is a card of such size that it can be conveniently filed as shown at the left in Fig. 6 which is the obverse side and at the right which is the reverse side. One of these cards is filled out every day by

the salesman at the hotel, on the train, or any other place where he may have the time and inclination. He can do it in a few minutes and

SALESMAN <i>R.J. Houston</i>		DATE <i>March 4 1919</i>	
TOWN <i>Jeffersonville, Ind.</i>			
CALLS	BUSINESS	GOODS ORDERED	INTERESTED IN
<i>J.G. Murphy</i>	<i>Dry Goods</i>	<i>50 No 17 - #14-67</i>	<i>Nos 27 & 41</i>
			<i>Quick Buyers</i>
			<i>or</i>
			<i>slow Action</i>
			<i>Buyer out</i>
			<i>Firm overstocked</i>
			<i>Promise fair</i>
			<i>Share of trade</i>
			<i>send Catalogue</i>

TRAVELLING ACCOUNT		
<i>R.J. Houston</i>		
DATE <i>Mar 4 1919</i>		
<i>Total Amt. Sales</i>	<i>156</i>	<i>43</i>
<i>R.R. Fare</i>	<i>2</i>	<i>21</i>
<i>Hotel Bills</i>	<i>6</i>	<i>50</i>
<i>Express & Bag.</i>	<i>1</i>	<i>10</i>
<i>Incidentals</i>	<i>1</i>	<i>25</i>
ADDRESS MAIL		
MON		
TUE		
WED		
THU		
FRI		
SAT		
SUN		

FIG. 6.—SALESMAN'S REPORT CARD.

without inconvenience, and when done he has only to enclose it in a stamped and addressed envelope and post it.

These index cards get away from the former tiresome long-winded letters in which the

salesman either boosted his abilities when things were middling fair, or knocked the conditions, and everything else but himself, when sales fell off.

Doctoring up Sick Sales. The sales manager's work does not end with the card report system. Besides keeping tab on his salesmen with it there are other means by which he keeps in touch with the various conditions as they actually are and this enables him in a measure to verify his report cards.

There are two things that he receives from every business center around which his salesmen are working and these are (1) newspaper clippings of financial conditions and bank clearings and (2) weekly weather reports.^{*} Here is a concrete example of how this information is made use of.

Suppose that Jones, a salesman, is covering a rural route. From his card reports Brown, the sales manager, discovers that Jones's sales are steadily dropping off. To offset this, Jones has written in and explained that it is due to a local financial depression owing to the failure

^{*} These can be obtained from the U. S. Weather Bureau at Washington.

of the crops in that section caused by a late spring frost.

Comparing these statements with his financial clippings and weather reports of that locality, Brown observes that there has been no decrease in the bank clearings, that the weather has been favorable for crops, and that everything is as rosy as could be. The sales manager knows that Jones's hard-luck story is false and that for some reason or other he is laying down on the job. Consequently Brown writes Jones a letter, containing a few facts and much good advice, with the result that when the latter reads it he is more or less surprised and sees that the only thing for him to do is to buckle down to business and he usually does it.

Keeping your Force Going Strong. There are many things that could be said about how to keep your selling force *going strong*, that is up to its highest efficiency, but the three following points are the most important, namely: (1) the *balanced force*, (2) the *understudy system*, and (3) the *competitive spirit*.

As an illustration of the balanced force, suppose Brown, the sales manager, has three salesmen, Jones, Wilson, and Williams, covering a

certain territory in the fruit belt. Through the bank and weather reports Brown finds that the clearings are falling short of the normal and that a cold wave is expected.

It does not take much analytical power on his part to know that although the sales have not yet dropped off they will soon for the cold wave will kill off the early fruit and then money will get tight.

What does the sales manager do? Why, he withdraws Jones and Wilson from the doomed territory at once and puts them on another assignment where there is every indication of coming prosperity. In this way he keeps his force *balanced* with the financial depressions and rises as they occur, and he is thus able to cope with the former and meet the latter successfully.

The knowing sales manager will have for every one of his important salesmen an *understudy* who can take his place on short notice. Then in case of sickness, desertion, or the death of a salesman, the situation can be saved without loss of time.

One of the things that tend largely toward the maintenance of an efficient selling force

is the promotion of a competitive spirit between the salesmen themselves and between his force and the forces of rival concerns by the sales manager. In virtue of his personality a clever sales manager can instill this spirit in his salesmen, for, since they are only human, they will often appreciate his praise as much, nearly, as a more substantial reward, and especially is this true where the commissions are liberal. The competitive spirit will never flourish where starvation wages rule, on the other hand the profit-sharing system of rewards is a mighty fine plan to foster and maintain it.

But whatever the scheme used for this purpose is, care must be taken that it does not discourage any salesman and so cause him to lose interest in his work.

CHAPTER III

HOW TO PICK LIVE WIRE SALESMEN

The Need of Live Wire Salesmen—Live Wire *versus* Jim Crow Salesmen—Varieties of Salesmen—The Qualities of High Grade Salesmen—On Personal Appearance—About Wearing Apparel—*Re* Facial Characteristics—A Vigorous Personality—The Physical Body—The Mental Self—Conversation—Using Tact—Good Memory—His Moral Fiber—Picking Live Wire Salesmen.

IF you are a *live wire* salesman yourself, you will have small trouble in knowing another live wire when you see one, and none at all in picking him out from among his less gifted brethren.

On the other hand if you are starting a business which requires a selling force, as nearly all of them do, and you are new at the selling game yourself, you will be at a loss to pick out from among the large number of applicants who present themselves as first-class salesmen those who are really aggressive and those who only think they are.

The Need of Live Wire Salesmen. There are two chief ways of selling goods and these

are (1) by direct sales made by salesmen and (2) by reaching the customer through the mails. The first is the way we shall take up here for the second is a separate and distinct branch of selling which we will consider later, but in any event practically every business must employ salesmen in some capacity or other.

It goes without saying that it is not nearly as hard to keep up an efficient selling force in an established business, as it is to organize such a force for a business that has just been started, and it stands to reason that anything less than an AI force of salesmen at the beginning spells failure, if not utter ruin. Hence when you start a business of any magnitude you must have live wire salesmen and to get them you must know how to pick them.

Live Wire versus Jim Crow Salesmen. That you may not become sulphated in the bath of your own inexperience, let's see before we go any further just why an aggressive selling force is absolutely necessary to any kind of a business organization, but most of all to a new firm, especially if it is trying to market an untried product.

An experienced salesman for a new firm will not only succeed in selling its product to the best advantage and fullest measure but he will do even more, and that is to keep friends with his old customers and to make friends of his new customers. It takes only half-an-eye to see that the cordial relations he establishes with his customers is of the greatest value to you, for as long as he stays with your firm his customers will always be buyers of your products.

So strong is the tie that binds the salesman and his customers that the heads of a firm bank on it that when a salesman goes over to a rival concern his customers will stick to him and, of course, this means that they will buy of the firm he represents. This is simply because they like and believe in the salesman—not altogether good business logic perhaps but just another manifestation of human nature

Diametrically opposed, an *nth* rate salesman will not be able to hold your trade, even if he manages to transact some small business for you, and this may be due to any one of a number of reasons.

Thus he may understand the importance of

establishing friendly relations with his customers but he hasn't the happy faculty for doing so, and what is worse, he is quite as likely as not to make his customers dislike him. When this reaches a certain critical point they are apt to conceive a dislike for your goods.

From this you will gather that unless you employ the right kind of salesmen in the beginning of your endeavors you might as well close up shop, for this kind of denatured salesmanship will cause you untold worry and more financial loss than you can stand.

Varieties of Salesmen. Generically speaking there are only two kinds of salesmen and these are (1) the *fixed* salesmen and (2) the *traveling* salesmen. All salesmen who sell goods of whatever kind in shops and stores, at retail or wholesale, come under the first classification. The second class includes those salesmen who travel from place to place whether they are house to house canvassers, or salesmen who cover a certain prescribed territory of the country in the interest of big business.

Now what we are going to tell you about

salesmen holds equally good for either of the above kinds and in judging and selecting them it will be to your eternal profit to heed the advice of a couple of old timers who have gone through the mill and know the ropes.

The Qualities of a High-Grade Salesman.

There are two things that you must look after in taking on salesmen and these are (1) his *personal appearance* and (2) his *personality*; naturally the first has to do with his physical aspect and the second is chiefly a matter of his mental attributes. Without these two prime factors expanded to a proper degree a man is not likely to be the salesman he thinks he is and you wish he was.

On Personal Appearance. Much depends on the personal appearance of a salesman and on other outward signs that loom up which seem to indicate the solidarity of the house he represents. Here again must the peculiarities of human nature be taken into consideration.

When a customer has before him the visual evidence that all is right, and at its best, it puts him in a favorable frame of mind and conversely, when things do not have the right look he jumps at conclusions as before and he has an

uncomfortable feeling. The personal appearance of the salesman, then, goes to make a good impression on or else it grates on the nerves of the customer, and so small a matter as this may either make or break a sale.

The personal appearance of a salesman can be divided into two parts and these are (1) his *wearing apparel* and (2) his *physical characteristics*.

About Wearing Apparel. To lay down a hard and fast set of clothing specifications for a salesman would certainly be a man's job but in any event his dress must be in good form. By this we mean that a salesman for a maker of men's clothes or a suit and cloak house can afford to look like a fashion plate, if he wants to, for this style of dress would be in keeping with his business at least. In this case his clothes would impress some of his customers with the idea that the goods he sold them would likewise be up to date.

But you can see that such an outfit for a salesman of farm tractors would be entirely out of place and a farmer would quite naturally conclude that a "gol dern dude" like him couldn't know anything about machinery. If

a salesman feels that he wants to dress the part he must use mighty good judgment or he will make a grand fiasco of his whole effort.

There are, however, some hard and fast rules about the way a salesman should dress. First, his clothes must always be good, neat, and well-fitting and his linen immaculately clean. Second, he ought to look prosperous but never flashy because trick clothes carry with them the suggestion that he is a light-weight. Some salesmen try to cover up mediocrity with loud clothes and hence this style is also tabooed.

But don't lose sight of the fact that the salesman himself must be entirely satisfied with his own personal appearance, for no man can sell goods if there lurks within him the idea that he is not dressed right.

Now about salesmen who wear jewelry. Many sales managers do not advocate the wearing of jewelry, but here again a little common sense will clear up the issue. As long as jewelry is worn that does not offend good taste it will not stand in the way of a sale, and if it inspires self-confidence in the salesman it will prove an aid to him. An ex-

cess of jewelry, however good, always creates a bad impression in the mind of the solid customer as it suggests the confidence man.

Facial Characteristics. There are some salesmen who have not a naturally pleasing facial expression. If a man's face looks as if he was soured on the world he can't hope to compete with men who are always genial. The trouble with a lot of salesmen is that they take themselves too seriously and if they are fairly good they think that neither the firm nor their customers can get along without them. A cheerful expression can be acquired by anyone if he starts in early enough, so tell your salesmen to begin to look pleasant *now*. The physical and mental qualities are shown diagrammatically in Fig 7.

A Vigorous Personality. There are three elements which when combined make up a potential personality and these are (1) *physical health*, (2) *mental vigor*, and (3) *moral fiber*. Of these the first two are the most important to the salesman although the third must be duly considered.

Your Physical Body. You have probably noticed that big men, that is men with beef-

on-their-bones, are usually good salesmen and this is especially true if they have anything like proportionately big minds.

THE PHYSICAL SALESMAN

CLOTHES 

FACIAL
EXPRESSION 

VIGOR 

THE MENTAL SALESMAN

CONVERSATION 

MEMORY 

TACT 

MORAL
FIBRE 

FIG. 7.—THE MAKE-UP OF A LIVE WIRE SALESMAN.

Men who are physically large have, as a rule, what is frequently called *personal magnetism*, that is they attract other men to them. As a matter of precise science there is no such thing

as personal magnetism, that is magnetic lines of force are not set up and radiated by the human body as they are by an iron or a steel magnet nor has it ever been shown that a magnetic field has the slightest effect on living matter.

Don't, then, as you value your time and money, waste either on literature that purports to teach you personal magnetism, animal magnetism, mesmerism, hypnotism, or anything else that is neither science nor business.

In physics, however, there is an attraction between all bodies, or *mass attraction* as it is called, that is a gravitational force which is exerted between bodies, and a large body has a greater attraction for a small body than the latter has for it, and so draws it to it; hence large men exert a mass attraction for small men.

As an example a well-known corset manufacturer of small stature discovered that although he built good corsets his customers did not like him, his personality was *nil*. He was shrewd enough to guess that sales were lost when he was merely present, and frequently because he met and talked with his customers.

He thought long and hard about his steadily

declining business and he decided to put a new policy into effect. First he got together an executive and selling force of large men and then he himself disappeared from the sight of his customers. Soon after his sales began to increase and he is still doing business at the old stand. This tale sounds like fiction but it is gospel truth and you will do well to take cognizance of the moral it carries.

Your Mental Self. What is of far more importance than mass attraction is an alert, quick, and vigorous mind and this in the final analysis is the essential feature in the making of a successful salesman. You can overcome bodily bulk by sheer mentality but you can't overcome the power of the mind by putting mere mass against it.

But if a salesman is handicapped physically by his small size he must counterbalance it by the force of his mental vigor. Now there are three chief things that have to do with a man's mind in so far as his ability to sell goods is concerned and these are (1) *conversation*, (2) *tact*, and (3) *memory*.

Conversation. To be a convincing talker a salesman must be a good thinker, grasp new

ideas quickly, and enlarge upon them, and he must have a fair vocabulary, that is a stock of words.

Flowery words are all right for a poet but they are of no value to a man who is trying to impress a customer with the worth of his goods. Good, snappy, vigorous words that indicate power, work, speed, sales, money, success, etc., are the kind that catch and hold the attention and interest of the customer—words that he can visualize, that is, get a mental picture of, and which look like dollars to him.

To be original is a very great asset for a salesman for it is that faculty which enables him to be aggressive. It consists of an inventive and executive ability by which he can overcome the difficulties that crop out in the course of a selling talk. A good talker not only has a strong selling vocabulary but his voice acts as a resonator and amplifies what he says. To have this quality a voice must be clear and strong, not necessarily musical, but good to listen to.

A salesman who will practice fifteen minutes a day—thirty is better—putting forth his selling talk either in his room or out in the

woods; taking care to pronounce his words distinctly and correctly and to use a pleasing tone, will soon be able to express his thoughts in smooth, vigorous language, and in an easy style which will go a long way toward selling your goods.

Using Tact. The matter of using tact is not so easy to learn but it can be done. There are two kinds of tact and these are (1) *near tact* and (2) *real tact*. Tact has been defined as *nice discernment* but when applied to salesmanship it means the art of saying what you want to say to a customer without aggravating him.

Near tact is the kind that most salesmen have; it consists of enough discernment on the part of the salesman to realize when his statements are being received unfavorably by the customer, and sufficient intelligence to switch over to a more pleasing line of talk.

Real tact consists of sufficient discernment never to say anything to which a customer can take exception, and it is a rare and valuable trait. We say *trait* but after all *habit* would be the better word, for tact is largely a matter of getting into the habit of saying the right thing

at the right time. Naturally the best salesmen are those who have the most tact.

Good Memory. Memory is another important factor in determining the efficiency of a salesman. Memory can be divided into two parts from a salesman's standpoint and these are (1) a memory for faces and names, and (2) a memory for words, phrases, and selling points.

To have a good memory for faces and names is an essential part of a salesman's mental equipment. It is obvious that he must be able to recall instantly at any time and place the name of a customer he has once met. There is nothing that a customer likes better than to be recognized instantly by a salesman and called by his right name. It pleases his vanity for it places him on an imaginary pedestal of near-greatness with the great.

Of course a salesman must remember all of the important data and selling points about his goods and the interesting processes in their manufacture. All this is easy enough for most salesmen but where lots of them get hard pressed is in not being able to keep the continuity of thought intact as they push along through the various selling stages.

The way to circumvent this kind of an erratic memory is to have a cut and dried outline of the selling talk and to get it down pat so that when a customer breaks in with a little talk of his own the salesman can reply and then go on and pick up the thread of his discourse at the exact point where he dropped it.

His Moral Fiber. To be a continuous successful seller a man's moral fiber must be as tough as they make 'em. He must be as straight as a die and must pursue an unswerving course of honesty in dealing with his customers. To do this he has got to come pretty nearly being what is commonly called a *white man* not only in his business life but in his social life as well.

Sticktoitiveness is another crowning quality that is included in the term moral fiber and many salesmen, who have little real selling ability, hold their own against those of more ability because they possess an overabundance of this sterling-qualification.

In football it is this force that keeps a man bucking the line when the game is lost and he is fagged out, only in football they call it *guts*, whereas its real name is moral tenacity.

Picking Live Wire Salesmen. All through this chapter we have been citing the qualities you must look for in live wire salesmen and if you are young in the business you can take a hint and embrace them yourself.

To pick a live one from a bunch of applicants, don't do it on first sight or on the strength of a letter a salesman writes you. On first sight it is possible to miss some of the sterling qualities for which his tribe is noted—that is if he has any. As for a letter he writes you, it may be that he can express himself far better on paper than he can by word of mouth, or he may get a stenographer to write it for him.

The best plan is to give each of the more promising applicants all of the literature and such selling data as you have on your product, tell him to take it home with him and to come back the next day. One by one they will present their different ideas for selling your goods and, knowing them so well yourself, you will have very little trouble in picking the live-wires from the dead ones. Your live-wire will have a smooth and easy bearing, a vigor of speech, and an abundance of selling points that

distinguish him at once from both the novice and the old-timer of mediocrity.

By using this method you can weed out the inefficient salesmen and secure those who will handle your product to the best possible advantage.

CHAPTER IV

SELLING OVER THE COUNTER

Selling over the Counter *versus* on the Road—How to Sell over the Counter—How to Arouse Curiosity—Why an Attractive Display Must be Used—Various Kinds of Display—Why Live-Wire Salesmen are Necessary—Kinds of Customers—The First Kind—The Second Kind—The Third Kind—Making a Sale over the Counter—The Counter Salesman and His Stock—Arranging and Systematizing Stock—How to Organize a Sales Force.

As you have seen, the foregoing chapters of this book cover basic principles that have to do with salesmanship in general, and consequently the principles put forth hold good equally for automobile, life insurance, or any other kind of salesmanship, and hence, they also apply to selling over the counter.

For instance in the first chapter we gave you the five simple elements needed to make a sale and these are also steps in counter selling, except that in the latter case some of them are greatly abridged and abetted because of the fact that it is the customer who approaches the salesman—and usually with the desire to

buy already in his mind—and not the salesman who approaches the customer as in most other kinds of selling transactions.

Also in the matter of dress and personality all that we have said in the chapter on *How to Pick Live Wire Salesmen* is just as true in the matter of choosing counter salesmen, and finally, in Chapter II, the fundamental principles for the organization of a master selling force are laid down.

From this you will see that by a careful study of the first three chapters you will have at your finger's ends the ground rules of success for any kind of selling and salesmanship in general, and, it follows, for selling over the counter. There is more, however, to successful counter selling than the cardinal principles involved and it is intended in this chapter to bring out many of the other big and little points.

Of course in the last analysis the salesman himself is of the most importance, but his importance is much less than that of the traveling salesman to his firm, as you will presently see.

Selling Over the Counter versus on the Road. The reason the counter salesman does

not measure up in importance to the traveling salesman is that it is much easier to sell over a counter than to sell on the road. Therefore it is unnecessary for retail stores to employ such high grade salesmen as those employed by firms who send them on the road.

Do not understand this to be an odious comparison or intended to depreciate the value of the counter salesman or, further, to insinuate that he can be any the less skilled in his branch of the art than the traveling salesman, but what we intend to imply is that his branch is one that does not require as much skill and tact as that branch his traveling brother is engaged in.

To make this point clearer, if you are a traveling salesman you often have to deal with men who at the start have no idea of buying and it is your part of the game to set up in the minds of such men the desire to buy your goods. In order to do this you must cleverly go through the five basic steps in making a sale and everything depends on your initiative and skill.

How to Sell over the Counter. But when a customer goes into the store and up to the

counter the great need for initiative is much less on your part, assuming now that you are the counter salesman.

Two reasons can be cited for this and these are: (1) the customer approaches the salesman, thereby taking upon his own shoulders the burden of initiative and so causing the introduction to be gone through with quickly and more or less mechanically, and (2) in the majority of cases the customer has a definite idea of making a purchase before he enters the store. In other words the customer's attention, interest, and desire are aroused beforehand, often through the medium of advertising matter, store display, or hearsay, and this, sometimes, to a very considerable degree.

Upon the extent to which these things exist in the customer's mind depends the amount of initiative and skill needed by the salesman to change the resolve to buy into action. Obviously if attention, interest, and desire are well advanced, then it requires but a mere superficial display of the goods by the salesman to make the customer buy, for the resolve to act is in reality subconsciously planted in his mind.

On the other hand if these steps are not so well developed, then his attention and interest are the result of idle curiosity and as yet there is no resolve to buy. Incidentally we may mention something which everybody knows, that, with women customers, curiosity plays a much greater part than with men.

To differentiate between these phases of the customer's mental states, a counter salesman must know the principles of selling if he is to sell to all comers; and unless curiosity can be nursed along into a well formed and definite resolve to buy, the sale is lost.

A cursory display of goods is not always enough to lead curiosity into desire and thence into buying action. Curiosity however is one of the most helpful aids to salesmanship and for a salesman to lose a sale where the customer already has it is nothing short of a crime.

How to Arouse Curiosity. There are several ways by which it is possible to arouse curiosity and its logical sequences, of desire and buying action. The first and foremost of these is by advertising. The second is by means of display and this, according to lexicographers, means to spread out, unfold, or exhibit. In

selling parlance, however, it means to show goods in an *attractive* and *favorable* manner to the public gaze.

Why an Attractive Display Must be Used.

There are two chief kinds of display used in retail stores. These are (1) the window display and (2) the counter display.

Both kinds have dual purposes and these are (a) to augment the advertising the store does and (b) to awaken dormant curiosity and to arouse stagnant interest when advertising has failed for one reason or another.

Thus when you read in the morning paper about a suit, of its style, of its quality, or of its low price, or of all these things rolled into one, there is awakened in you a sufficient interest to cause you to go to the store and see it.

This interest consists chiefly of a desire to merely take a look at the suit and perhaps examine it at close range and so discover for yourself if it is as the advertisement claimed it to be or not. When you reach the store the window display satisfies your desire to see the suit but it does not satisfy your desire to examine it closely; but what it does do is to *intensify* your interest in it.

On reading the advertisement and looking at the picture accompanying it you visualized the suit in your mind's eye, and now the window display materializes it for you in the concrete. You have actually seen the suit and yet because the plate-glass window intervenes between you and it you have been baffled in your desire to examine it closely.

Your natural tenacity of purpose will next induce you to go into the store and to that part of it where you can examine the suit at first hand. There you are confronted by a suit on a tailor's dummy or perhaps a counter display. The purpose of this display is either to (1) further stimulate the interest created by the window display, or (2) to create interest in those who failed to see the window display.

In counter display the goods are exhibited in various pleasing and interesting ways, thus building up new ideas in the customer's mind and giving new cause for interest. Hence by the time the customer is shown the goods by the salesman these clever displays will have turned his curiosity and interest into the desire to own and it only remains for the salesman to induce the buying action.

The second purpose that displays serve is to interest the passer-by. You must have often observed that when you pass by a clever window display you are attracted by some article or piece of goods, and you were almost unconsciously led inside the store. Once there, a salesman took you under his wing and carried you through all the selling steps until you finally bought—and all because of the initial interest awakened in you by the display. The diagram in Fig. 8 shows the idea.

Various Kinds of Display. To properly display goods is an art in itself and one which requires both genius and experience. Now there are four chief things that a display must do and these are (1) to please the prospective customer's sense of the artistic; (2) to arouse his interest; (3) to appeal to his discernment of quality or merit and utility; and (4) to challenge his judgment of values.

The successful window dresser usually combines all of these elements in his work, laying stress on the particular one which is in keeping with the class of customers the store has to deal with and which will be described later on.

If you are running a small retail store and

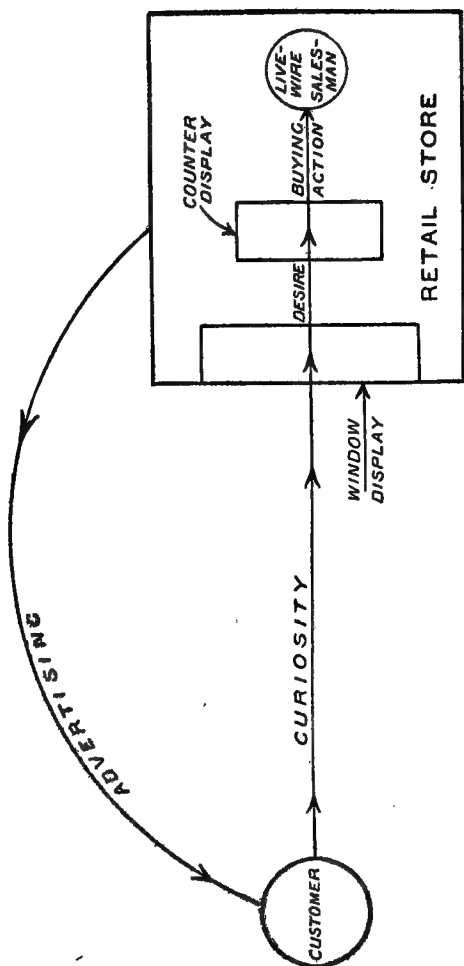


FIG. 8—THE MERCHANTS' SELLING AIDS

you will take the foregoing points into consideration you will be able to do your own display work, providing you have a little natural ability along this line. But if you find it to your advantage to employ a good display artist, he will get results that you would have difficulty in obtaining yourself, for this is the day of specialization.

Why Live Wire Salesmen Are Necessary.

The counter salesman must be a *live wire* just as much as the traveling salesman. The appearance and personality of the salesman must measure up to the standards set in Chapter III. He must have a certain amount of initiative, tact, and sticktoitiveness if he is to make the maximum number of sales.

For now even though the customer's mind be bent on the purchase of a given commodity, if the salesman does not possess all the qualities of his traveling brother there will be, more than likely, a hitch somewhere between the time the customer meets the salesman and the time when he *should* resolve to buy and pay the purchase price.

Then again every customer must be handled a little differently for there are (a) some in

whom the resolve to buy is already fixed; (b) others in whom there is only the desire to own; and (c) still others in whom curiosity alone exists. The clever salesman determines almost the instant he comes in contact with a customer just which of these three cases he has to deal with and he acts accordingly, with the result that he sells to all of them.

On the other hand the poor salesman makes no distinction whatever between them but treats all comers and all cases exactly the same, and he loses two out of every three possible sales. As the matter of sales is a vital one let's take three different customers approaching a counter salesman and, further, let's take it for granted that each represents one of the cases above described.

Kinds of Customers. The First Kind. The customer who has resolved to buy goes to the counter without any hesitancy and asks to be shown the article he wants. He may ask a few questions as to its size, style, quality, or usefulness but because he has made up his mind to buy it he will not be likely to mention the price.

The Second Kind. Now let us consider the

second case, namely, that of the customer who desires to own the article but has not yet resolved to buy it. He walks up to the counter and his first questions will usually be based upon the points that are still doubtful in his mind, that is to say, if the price is the great object with him he will immediately begin to talk price, whereas if quality is his weak spot he will open fire on quality.

It is a little harder for the salesman to sell to this customer than to one of the first kind because he must create in him the resolve to buy. To do this he has only to meet the customer's questions as to price or quality in such a way as to satisfy him. From this time on the closing of the sale is the same as in the first case.

The Third Kind. Comes now the case of the merely curious customer who indifferently approaches the salesman. He is the hardest of all to sell to, for the salesman must lead the customer from mere curiosity to an intense interest, then the desire to own, and finally, the resolve to buy.

As before the salesman will take his cue from the nature of the questions asked and

having once found the point of the article on which the customer's interest centers he will bend all his energy to convince him that the article under discussion fulfills his requirements in every way. Fig. 9 shows diagrammatically the three kinds of customers to whom you have to sell over the counter.

With customers who are idly curious the hardest part of a salesman's task is to find a point in the article that will really interest the customer. The following story points out what we mean by the term *idly curious*.

A lady went into a large dry-goods store and asked the salesman to show her some silk dress patterns. He took down several bolts and expatiated on their numerous merits but could not get her interest, or *point of contact*, as it is sometimes called.

Believing that if he found the right pattern he could substitute interest in her mind for mere curiosity, he took down bolt after bolt until but a single one remained on the top shelf. Then the kind lady gently informed him that she didn't want to buy a silk dress pattern that morning anyway as she was only looking for her friend Mrs. Green.

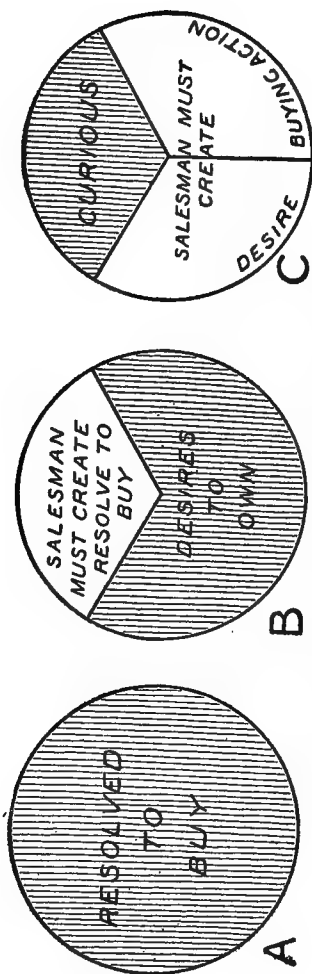


FIG. 9—THREE KINDS OF RETAIL CUSTOMERS

"Well, madam," replied the discouraged salesman, "if you think your friend is in that last bolt up there I'll willingly take it down for you." Obviously he had missed the point of contact.

Finding the point of contact is the keynote of success in selling not only to the merely curious but to the wholly disinterested customer, and often to the antagonistic person who has absolutely no intention of buying. In the next chapter you will find a fuller explanation of the point of contact and its relation to successful selling.

From what has gone before you can see the necessity of live-wire salesmen in your retail store. Of course, in a large department store where an army of salesmen are employed it is next to impossible to have every salesman a top-notch. Inexperienced salesmen must be hired to keep the selling force up to the requisite number.

But even under these adverse circumstances the selling heads realizing the importance of having every salesman a live wire, will see that each one employed is given instruction in selling and in this way the whole force will in

time be selling according to the scientific principles of salesmanship.

Making a Sale over the Counter. As we have mentioned before, your customer is in one of three mental states when the salesman meets him. To the customer who has resolved to buy, the price of the article is of small interest as he has resolved to buy, and, hence, to pay the price. It is a waste of time for the salesman to enter into a discussion about the price, and if he does, it may even make him lose the sale.

If, however, the customer has only a desire to own the article then there are three things that will be of interest to him and these depend on what kind of a buyer he is. These are (1) those who examine the suitability of the article; (2) those who buy with the price alone in mind; and (3) those who combine both of these ideas in their buying.

The first class are usually those who have plenty of money and price does not concern them. The second class may or may not have money but either their dispositions make them close buyers, or necessity drives them to it. The third class, likewise, may or may not have

money but they form the larger part of those who buy logically, that is, with an eye to worth balanced against price. They are the sane buyers and it is easy to sell to them.

The salesman then must be able to tell to which class the buyer belongs, and to adjust his selling talk accordingly. For those in the first class he will base his talk upon the interesting points and the suitability of the article to his needs and leave out all mention of price or value.

With the second class he will work on their desire to get something really good for very little money. He points out why the cheap article is just as serviceable as the more expensive one.

With the third class the salesman will base his talk upon the fact that no better article can be bought at any price, in other words that the article he is selling them is worth the price he is asking for it. These are the three chief things a counter salesman must know and be able to use in order to be classed as a first-rate salesman.

The Counter Salesman and His Stock.
It goes without saying that the counter sales-

man must know his stock thoroughly. Specifically he should know:

(1) Its purpose or what it is used for, as without this knowledge he cannot hope to converse intelligently about it.

(2) Its principal parts, that is, the things essential to its operation or manufacture, for these things are interesting to the customer of an analytical turn of mind.

(3) Its style or design, and how it is styled or designed to meet the needs of the customer.

(4) Its make and why it is better than any other make, if indeed it is.

(5) Its finish or effect, and this consists of knowing how the article as a whole is finished and how it looks.

(6) Its history or sentimental value; as a sample take the sale of antiques and oil paintings, in which line the whole of the salesman's talk must be based on the history, or sentimental value of the articles he is selling.

And finally (7), the price of the article in relation to its economic value and the effect of both of these on the customer.

Arranging and Systematizing Stock. In every line of business the stock must be ar-

ranged and systematized so that it can be handled quickly and safely. Especially in selling over the counter this is a very essential feature. Few customers indeed will wait for a salesman to hunt through his stock for an article, and many a sale has been lost simply for the want of a little system.

The initial cost of adequate shelving, drawers, counters, and showcases is a good deal, but such an equipment is amply paid for in the saving of time, room, and goods, and the sales it promotes.

Essentials of Stock Disposition. There are three essentials in the disposition of stock in a store and these are: (1) the ease and rapidity of handling it, and this, of course, includes accessibility; (2) safety, and this includes cleanliness; and (3) visibility, that is, it is arranged so the customer can see it. .

Whether cleanliness is next to godliness or not depends largely on the personal viewpoint but in counter selling it must be had at all cost. No matter how fine the goods are, how strong the customer's desire to buy, or how good the salesman, if the articles are dusty, dirty, or faded he can get only shop-worn

prices for them, if indeed he can sell them at all.

How to Organize a Sales Force. To organize a sales force follow the instructions given in Chapter II. In the retail store the aisle managers are the sales managers of the aisle forces. You must have aisle managers not only because of their ability to oversee and direct the selling efforts of the force under them but because every aisle must have a responsible head who can be relied upon.

In large department stores the salesmen are under the supervision of the aisle managers, the aisle managers under the floor managers, the floor managers under the department heads, while the department heads are under the supervision of the sales manager.

CHAPTER V

SELLING TO THE RETAIL TRADE

How to Interest the Buyer—About the Point of Contact—
What the Salesman Must Know—On Selling to the Retailer—
The Art of Making Repeat Sales—On Making Hurry-Hurry
Sales—Letting your Advertising Sell the Retailers' Goods.

WHATEVER kind of a merchandising business you may have there are four general outlets for your product. These are (1) to sell to the customer direct by means of house to house canvassers, or through stores or agencies of your own; (2) to sell to the retailer by means of traveling salesmen; (3) to sell to the wholesaler direct, by traveling salesmen or through a commission house; and (4) to sell to the general public, which consists chiefly of the consumer, through the mails. These schemes are pictured in Fig. 10.

It stands to reason that within certain limits, the larger the quantity of your product that you can sell at one time the lower the price you can sell it for. This is easy to see

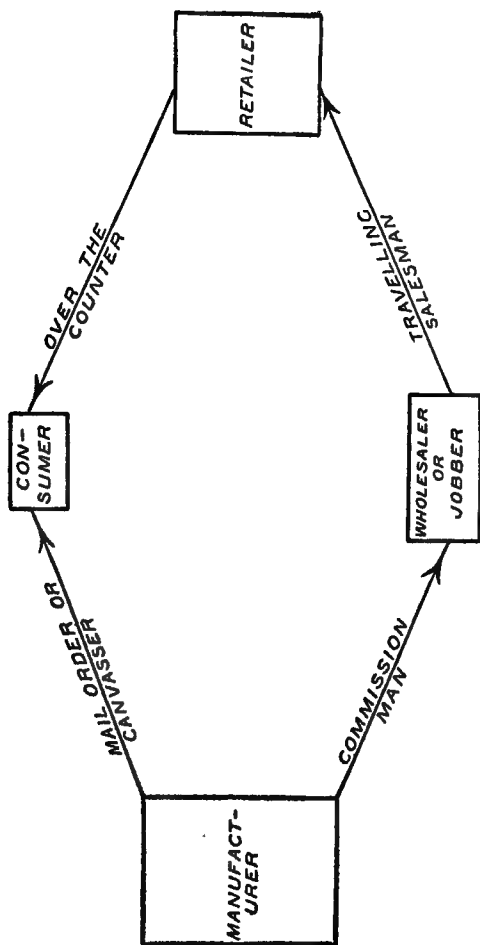


FIG. 10—THE BIG DIAMOND OF THE SELLING GAME

through for the larger the quantity of goods you manufacture the lower will be the cost of production on each lot.

Now since you can sell to the retailer a much larger quantity of your product than you can sell to a single consumer you can afford to quote him a lower pro rata price, for where you would have to pay twenty-five salesmen to sell one thousand articles to the consumer direct, you have to pay only one salesman to sell the same number to the retailer.

Nearly all large retailers employ what are known as *buyers* to do their buying for them and you will find the reason for this explained in Chapters IX and X. The proprietors of most of the small retail stores act in the capacity of buyers themselves.

Usually the buyer is a salaried man just as a counter salesman is and since it is his business to buy, your salesman should have no trouble in selling to him provided that he can interest the buyer in your product and convince him that his house can dispose of it easily, quickly, and profitably.

How to Interest the Buyer. The first move

to make then is to interest the buyer in what you have to sell and the way to do this is to establish friendly relations with him at your first meeting. When you have once done this you will have a clear track for selling him then and for all time thereafter.

Now there are three chief features that make for successful selling to a buyer and these are (1) a good article at a low price; (2) a strong selling talk; and (3) a winning and forceful personality. There is, however, one other feature, that, however foreign it may seem to selling and buying, still plays an important part in promoting sales and this is *entertainment*.

By *entertainment* we mean that part of it which has to do with the inner body, namely, good food and plenty of it. A man or woman buyer is never in so receptive a state of mind as immediately after a good meal. There is no psychology in this scheme of selling, but just vulgar physiology.

After a good meal the buyer will feel at peace with you, himself, and the world in general. Again you will find that dining with a buyer often puts you on a very friendly

footing with him which you could not obtain in months by ordinary business transactions, and moreover you yourself will be at your very best.

It is not so long ago that firms employed entertainers who were not salesmen at all but whose sole business it was to show an out-of-town buyer a good time. After taking the buyer to a rattling burlesque show and filling him up with liquids that are now *passé*, he would be turned over to a sane and sober salesman who would get him to sign up for anything at any price.

But all this sort of untoward thing has, fortunately, gone out of date. The buyer of to-day is apt to be wary of the salesman who entertains him lavishly, so don't overshoot the mark. The modern buyer is taking only two factors into consideration and these are price and quality. In fact he has got to do so in order to hold down his job.

About the Point of Contact. Dining with the buyer, however, provides one of the easiest and most plausible means for finding the point of contact. As we explained in the preceding chapter the point of contact is simply an in-

teresting point by which the salesman is able to catch the buyer's attention and keep his mind fixed upon it until he has made the sale. Usually a point of contact can be found in the goods you are selling but there are cases where it is only to be gained through an entirely different channel.

We also said in the first chapter that it is not a good scheme to direct attention to something else other than the article you are selling, but there are instances, especially when you meet your buyer under adverse conditions, when a little leeway from this hard and fast stick-to-business principle will, after everything else has failed, get you an order.

Nearly everyone appreciates a good joke and this has from time immemorial been one of the commonest points of contact. There was a time when a drummer who did not carry a full line of jokes in the back of his head was considered a failure. On the other hand the jocular point of contact has been worked to death and to-day it does not find nearly so unanimous a response in the buyer as it did in the days back there. Still it has a place and

may serve you well at times, if you do not impose upon it.

But there are other means of securing a point of contact and, indeed, these are so varied and numerous they are limited only by a salesman's ingenuity. The following illustrates the point at issue. The sales manager of the largest cash register concern in the United States discovered a prospect in a large and prosperous dry-goods firm at the head of which was a shrewd, hard-headed old Scotchman who did his own buying.

Being extremely desirous of placing his machines with this particular firm, the sales manager sent his best salesman to see the prospect with instructions to spare no time or expense in making the sale. The salesman wined and dined the canny old Scotchman who, although he good-naturedly accepted the entertainment, refused to be brought to the buying action. Then one morning a week later the salesman walked into the sales manager's office with a rueful countenance, a *mountaineous*—Kipling's word, not ours—expense account and the sad news that the prospect was impossible.

Having risen to his position as sales manager in virtue of his initiative he—the sales manager—so the story goes, determined to visit Old Ironsides himself. After a few minutes talk with his prospect he found him to be a second Gibraltar. The sales manager could not find a point of contact on which to hang a sale.

The sales manager was about to give it up as a bad job when a happy inspiration struck him. On the wall he saw a large salmon-trout mounted on a plaque. He approached it with all the awe, reverence, and enthusiasm of an old sportsman. For an hour and a half he talked fish, baits, equipment, and lakes with Angus McCollins. He had found the point of contact and the result was that the old gentleman invited him out to lunch and ended by placing a heavy order with him.

Later when telling some of his friends about it the sales manager admitted that he had never caught a fish—that is of the aquatic kind—in his life. But because of his discernment he had been able to find and to establish a point of contact where his salesmen had failed. He had penetrated through the hard-

shelled exterior of the man and sold him. Get the point?

What a Salesman Must Know. Before selling to the buyer there are several things that the salesman must find out and consider them fully if he hopes to have a permanent outlet for his product. Named these are (1) the size of the buyer's present stock, (2) his greatest possible outlet, (3) the terms that he will buy on, and (4) the terms that you can make him.

If it is possible for the salesman to determine these four things before he interviews the buyer it will give him a selling leverage of no mean power. By the size of the buyer's present stock we mean the quantity of like competitive articles he has on hand. Thus if the salesman is selling coal ranges he ought to know the number of coal ranges of other makes the buyer has on hand.

The retailer's maximum output is based on several things, chief of which is (1) the volume of trade he has, (2) the class of people he caters to, (3) the amount of advertising he does, and (4) the market for your line of goods. From this you will see that the retail dealer's output depends on (a) the amount of local advertising

he does and (b) the amount of national advertising your firm does, for it is these two things that popularize your goods with the public.

The terms on which the dealer will buy also depend on several factors the most important of which is (1) the price quoted to him by your competitors, (2) the class of trade he sells to, and (3) his present financial standing. And, finally, the terms on which you can afford to sell to him depend on (a) the cost of production of your goods, (b) the quantity that is taken by the retailer, and (c) your inside knowledge of his financial rating. How to get this line on him will be described in Part III Chapter X on *Inside Credit Information*.

Now let's see just how these factors affect the retail dealer's business and, consequently the sales you make him. In the matter of output regardless of the size of your retailer's trade there is a definite limit to the quantity of your product that he can sell in a given time.

Naturally a retailer with a large trade will be able to sell a larger quantity of your product than one with a small trade. If his trade is well-to-do or of the middle class the dealer

can handle higher-priced goods than a dealer can with a poor trade. In nearly all communities, however, the retail trade is made up of a mixture of both classes.

On Selling to the Retailer. Having taken all of the foregoing particulars into consideration you will have deduced the following facts about the retailer before you go to see him: (1) The approximate quantity of your product that you can sell him and that he can dispose of with certainty. (2) The terms that you must quote him in order to enable him to buy from you and still make his legitimate profit. This of course is determined from the quotations of your competitors and from the financial standing of the retailer. If money is tight your retailer will have to have time given to him in which to pay your firm and this may run from ten to ninety days. In any event it should be long enough to allow him to buy without involving him in pecuniary difficulties and especially is this true where you are opening a new account and where the retailer's credit is good.

(3) The terms that you can quote him and yet leave a safe working margin for your own

firm. This again depends on trade conditions and on his financial standing. When you have had him looked up by an accredited financial agency and you find he has an A 1 rating you can afford to extend liberal credit to him. On the contrary if he is on the ragged edge of bankruptcy you cannot, of course, afford to sell him on any other than a strictly cash basis.

So when you put up your selling talk to the buyer you will have determined all these things beforehand and settled them satisfactorily in your own mind. Then you will be able to lay before him a straight open and shut talk that will produce the results. Not to know these points is to buck the tiger blindly, and, of course in such a game the odds are all against you.

The Art of Making Repeat Sales. To sell to a buyer once is not nearly as hard the first time as it is to repeat the sale and this is particularly true if there has been a hitch of any kind in the first transaction.

And it is self-evident that a salesman who can't sell twice to the same firm is a detriment to your business, for when enough customers

begin to feel dissatisfied the news will spread like wildfire through the medium of competing salesmen and shortly you will find yourself without a single good account.

The art of making repeat sales consists of but one thing and that is absolutely satisfying the buyer every time you sell him. If for any reason he thinks or feels that he has been deceived, you will find it pretty hard to sell to him the next time.

Agreed that it is a fine thing to make every sale a big one yet if you overstock your buyer, and this is often an easy thing to do, you will surely lose his confidence in your judgment, nay, even worse, he may doubt your integrity with the disastrous result that you will lose future sales.

The following fable carries its own moral. A young and exceedingly clever salesman—too clever in fact—went to the buyer of the Pottsville Hardware Company knowing full well that it would be impossible for the firm to sell more than fifty base-burners that season.

But because he was a clever salesman—too darned clever to tell the truth—he succeeded in unloading on the unsuspecting buyer 150

base-burners although even at the time the buyer was a trifle dubious as to their rapid turnover. In other words, he overstocked the buyer for all he was worth.

Six months later the salesman—he was wonderfully clever as we told you—called on the buyer again in his quest for a repeat order but the buyer had begun to realize that he was stuck. Another six months passed and the salesman—who, as we mentioned before, was too clever for utterance—returned only to be greeted with harsh words for the buyer knew that he had not only bought foolishly but he felt that the salesman—who was too clever to live (apologies to Kipling)—had made several kinds of a fool of him. And it follows, as the night the day, that the young salesman—who was not quite as clever as he thought he was—no longer calls on the buyer of the Pottsville Hardware Company.

That is why we say that the best policy is to find out first the largest reasonable output of your retailer and then sell him to that amount and no more. Overstocking him not only causes his embarrassment in the slow turn over of his capital but it takes up his space and

leaves him with shop-worn goods on his hands. It is far better to take smaller orders and make numerous repeat sales.

Another thing that frequently causes the loss of repeat sales is broken promises. The majority of these have to do with the delivery of the goods. Often a salesman of small caliber will perjure his soul to perdition if he can but close a sale. But when the goods fail to show up for ten or fifteen days, or perhaps longer, after the time scheduled, the buyer frequently and quite rightly decides that his orders in the future will go to another salesman and your house will be the loser.

Sometimes a salesman will promise the delivery of goods at a specified time and it will be delayed through no fault of his. When such a delay causes the buyer inconvenience it annoys him just the same but he will accept an explanation because he knows that neither the salesman nor the house he represents controls the transportation facilities. But never let him be able to charge you with anything worse.

On Making Hurry-Hurry Sales. Occasionally a salesman is able to and does make what is called a hurry-hurry sale. This is the way

it is done. He rushes madly into a buyer's office with his watch in his hand, tells him hoarsely he has to catch a train for Chicago in $83\frac{3}{4}$ minutes, puts his talk up to him in three minutes and gives him two minutes in which to buy.

Once in a while this subway scheme works out but as a rule the sale will turn out unsatisfactorily because buyers are not accustomed to making rapid-fire decisions and when they do they will not hold good on careful afterthought. Hence our advice is don't do it!

Letting Your Advertising Sell the Retailers' Goods. Nearly every manufacturer gets out circulars, booklets and other printed matter for advertising purposes. Where it is feasible to supply a retailer with such literature and when his name is either printed on it, or a blank space is left so that he can stamp his name on it, it is an invaluable aid to him in selling your product, and incidentally, to you in selling to him.

Literature of this character not only helps to localize the fame of your product but if it is done on a large enough scale it tends to nationalize it and this is of the greatest selling advantage.

CHAPTER VI

SELLING TO THE WHOLESALE TRADE

Salesmanship of a High Order—On Selling to the Jobber—Advantages of Selling to the Jobber—Quantity Production—Who Pays for the Cost of Production—The Lost Art of Making a Profit—How Sales are Made to the Jobber—How a Factor Works—The Value of Salesmanship in Selling to the Jobber—What Largeness of Vision Is—Selling Points that Appeal to the Jobber.

THERE is still one other phase of selling goods through the direct or personal efforts of salesmen that we have not touched on, and this is selling to the wholesale trade.

In the idiom of selling talk a jobber is considered as being one and the same as a wholesaler and these names are, therefore, very often used interchangeably for both jobbers and wholesalers buy in large quantities.

There is, however, this nice distinction between them, the wholesaler usually sells to the retailer while the jobber sometimes sells to the wholesaler and sometimes to the retailer. As far as what we have to say in this chapter

is conceived the difference is a mere technical detail and need not be considered.

Salesmanship of a High Order. The salesmanship involved in selling to the jobber is of the highest order and consequently it is more difficult than selling to the retail trade or over the counter to the consumer.

The chief reason for this is that larger sums of money are involved in the transaction. It is true in any business that the larger the quantity of goods that changes hands the larger the sum of money at stake and hence the greater is the vital interest of both the buyer and the seller.

On Selling to the Jobber. There are several things of especial concern in the selling of goods direct by the manufacturer to the wholesaler or jobber. First of all when the manufacturer sells to a jobber he must sell at a low enough price to enable the jobber, or wholesaler, and the retailer to make a legitimate profit and still not have to sell it at such a high price that the consumer will buy some competitive article.

The profits of the manufacturer must necessarily be less on each individual article sold when

he sells to the retailer or to the consumer direct through his selling force or through the mails.

But balanced against this is the fact that the jobber will take many more times the quantity of your product than you could possibly sell to the retailer who since his market is localized can only handle small lots. Selling in large quantities to the jobber is a great aid to a manufacturing business in any one of a number of ways, and among these are: (1) it enables you to go in for quantity production and (2) it relieves you of the expense and responsibility of maintaining a large selling force.

Advantages of Selling to the Jobber. Frequently a manufacturer is able to place his entire output up to the limit of his capacity with a jobber and when this is the fortunate state of affairs it relieves him of all the worry attendant upon the sale of his product. He is then able to devote all of his time, energy, and capital to the operation of his plant, he is able to buy the raw material he needs and manufacture the goods to a much better advantage than when he is bothered with the selling end of it too.

Because he can produce in large quantities, or quantity production as it is called, he can get the cost of production down to rock-bottom and this permits him to do one of two things, namely: (1) to make a larger profit

QUANTITY



PRODUCTION COST



QUANTITY



PRODUCTION COST



FIG. 11—HOW QUANTITY LOWERS THE PRODUCTION COST
OF AN ARTICLE

when selling to the jobber than is made by his competitors, and this without raising the price of the article to the consumer, or (2) to sell a larger quantity in virtue of the price at which he can sell the jobber being lower, and this means that he can underbid his competitors. See Fig. 11.

Obviously these two gains are of the greatest value to the manufacturer, for while they are the logical outcome of quantity production they more than make up for the loss of a larger profit where the article is sold direct to the consumer, since the whole amount sold, and therefore the total profits made, are greater.

When the jobber has bought the product of a manufacturer in part or in whole he either (1) sends his salesmen on the road who sell it to the retailer, to the consumer, or to both, or (2), and what is more often done, he sells the goods to wholesalers who in turn sell to the retailer, who sells them to the consumer.

One of the selling schemes the jobber uses when he takes over the entire output of a manufacturer is to advertise the product and in this way he can secure a nation-wide sale for it. This, of course, helps the manufacturer for it nationalizes his product.

A further advantage the manufacturer has in selling to the jobber is that he can greatly reduce the size and hence the expense of maintaining an efficient selling force such as is needed by the jobber or wholesaler who sells to the retail trade.

Who Pays for the Cost of Production? One of the largest advertising agencies in the United States provides its employees with a series of educational and constructive lectures on merchandising. During one of these talks the question, "Who pays for advertising?" was asked. Simple as the question is, only one man was able to give the right answer, to wit, "The consumer, of course."

This answer is the keynote of all merchandising. The consumer must pay not only for the advertising but for all the costs of production and merchandising from the time the raw material is bought until the finished product is placed in his hands by the salesman. Fig. 12 shows what the consumer pays for when he buys.

It is the exceeding large force of highly trained men that is needed to sell the product from the time it is manufactured until the time the consumer gets it that boosts the price of it high-sky and makes the consumer breathe hard, and want to turn anarchist.

The fact that a manufacturer can eliminate the large and expensive selling force by disposing of his goods to the jobber, and that this

Buying and Selling

enables him to make the latter a much lower price than he could to individual retailers, does not in the least affect the price the consumer is called upon to pay. Thus it is that no

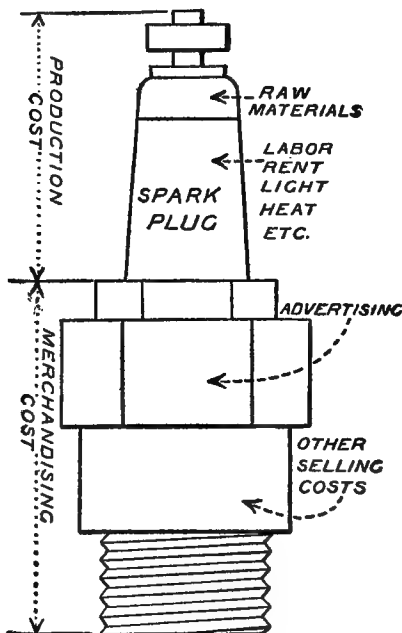


FIG. 12 —WHAT THE CONSUMER PAYS WHEN HE BUYS

matter what scheme or device is used by which a product is marketed there is a balance maintained in the selling expense so that the final price paid by the consumer does not vary greatly.

A still further reason why it is more profitable for a manufacturer to sell to the jobber or wholesaler than for him to sell to the retailer or to the consumer is because the former are specialists in selling. Their selling forces are as efficient as it is possible to make them and indeed they have to be if they are to sell at a profit.

It stands to reason then that they can handle your goods for you so that the final price made to the consumer will be lower than if you handled them yourself because your knowledge is restricted to manufacturing and does not therefore include selling. At least this is true of most manufacturers and there are mighty few men in the world who are universal geniuses.

The Lost Art of Making a Profit. Here is a word-cartoon that you'll appreciate. The firm of Jenkins Bros. and Company manufactured clothes-wringers for a long period of years. It kept no large selling force for it sold direct to big jobbers at low prices and what it lacked in profits on the sale of each wringer it made up in the quantity of wringers which it was able to manufacture and sell.

Working on this policy the firm prospered. A couple of years ago it changed hands and the new owners instituted a different policy. What they proposed to do was to sell direct to the consumer, cut out the profits made by the jobber and retailer, and secure larger profits for themselves.

After a year and a half of this sort of thing they woke up one morning facing a receivership, and not until then did they discover that they had lost the art of making a profit. Investigation proved that their selling force was a growing liability. The policy of the firm was forthwith changed back to selling to the jobber and once again the lost art of making a profit was rediscovered and the firm made money.

Don't think for a moment we mean to say that it is impossible for the manufacturer to sell direct to the consumer and still make a profit, but rather that it takes a lot of genius for a manufacturer to sell through the medium of direct and personal salesmanship because it involves a large and expensive selling force. The growing business of to-day is one that strives toward nationalization. The manu-

facturer-to-consumer through the personal salesmanship plan, *i.e.*, house to house canvassers, no longer lends itself to this scheme.

In the next chapter, on *Making Your Sales Through the Mails*, you will find the means that are now used by which the manufacturer can sell direct to the consumer and still make a profit, providing his product is adapted to the mail order business.

How Sales are Made to the Jobber. Now there are two ways by which a manufacturer usually sells his product to a jobber, and these are (1) by selling to him direct and (2) by selling to him through a commission man or house.

While we say that the manufacturer and the jobber get in touch with each other without the intermediary services of a third party, of course when it comes to the actual selling of the product to the jobber the manufacturer will have on his staff—often a member of the firm—a salesman of a high order who will carry on the negotiations, or the manufacturer himself can do the selling.

As we pointed out before there is a much larger sum of money involved in manufacturer-

to-jobber selling than in any other kind of sales transactions, and the salesman representing the former must be a top-notch. His arguments must be backed up by statistics and he must have at his tongue's end all the varied data relating to his product.

The main and foremost things, then, that interest the jobber are (1) the quantity of the product that he can reasonably expect to dispose of in (2) a given time and (3) the profit he can make on the turn-over. It is up to the manufacturer's salesman to convince him that the article he is offering is a good and quick seller and that the profit he will realize is a fair one.

The second way open for the manufacturer to dispose of his products is through what is known as a commission man. This is the method most commonly used because it is the easiest. In this scheme the manufacturer and the commission man get together and the latter agrees to find a buyer for the former's product among the jobbing or wholesaling trade. In other words the commission man acts as the salesman and the only difference is he is a freelance, that is, he is not directly

affiliated with the manufacturer and he simply receives a certain percentage, or commission, on the sale when he makes it, instead of drawing a salary.

You will, as a rule, find that the commission man will render you better service than a salesman of your own, for it is his business to handle large transactions like yours and he is a specialist in selling to jobbers and wholesalers. His commissions are generally large but this is offset somewhat because he is able to dispose of your product more profitably than you can.

How a Factor Works. Another kind of commission man is called a *factor*, and the way he works is like this: He agrees to dispose of a certain output of the factory; his next step is to get a jobber who he is confident can sell the product but who lacks sufficient ready capital to enable him to buy the quantity of the product the manufacturer has to sell.

Or it may be the other way about and a jobber, having found a product he feels sure he can sell, will often call in a factor. In either case the factor will advance the jobber enough capital so that he can buy from the manufac-

turer. When the jobber has realized on the sale of the product he returns the factor's loan plus a commission. The latter depends on the risk the factor takes with his money in loaning it.

The Value of Salesmanship in Selling to the Jobber. No matter how the transaction between the manufacturer and the jobber is carried out salesmanship of a high order is needed. Even if the only parties concerned in the sale are the manufacturer and the jobber, the former must be or must have a No. 1 salesman in order to dispose of his goods to an advantage.

That he is selling huge quantities of his goods, and that large sums of money are involved, makes super-salesmanship a greater necessity than in any other kind of selling we have described. But the principles underlying manufacturing salesmanship are just the same as those which we have expounded before, though there is one thing which the manufacturer's salesman must possess in a degree far and above the counter salesman or even the traveling salesman, and this important essential is what is known as *largeness of vision*.

What Largeness of Vision Is. The manufacturer's salesman must be able to *think* big sales if he is to *make* big sales. Moreover since so much more is involved in deals of this kind than in ordinary everyday run of sales a slight error of ten means the loss of thousands of dollars. Hence the salesman's judgment must be next to infallible or he is liable to bankrupt his company and go broke himself—and this has happened too.

Once in a while even when he has a keen perception and full knowledge of market conditions some untoward circumstances may develop. Here is one firm's experience: The Gasco Carburetor Company secured a contract to supply the Addison Motor Car Company with carburetors—this was before we went to war—at rock-bottom prices. When the war broke out, brass, the alloy of which the metal parts of carburetors are made, came into great demand for munitions and as a result the price of brass soared skyward. Unfortunately the Gasco Company's supply of brass, which they had bought long before the outbreak of the war at a low price, ran out before the order was three quarters filled. The firm was forced

to buy the rest of the brass they needed at war prices and as a result the profits on the whole deal were eaten up on the last lap.

Selling Points that Appeal to the Jobber.

Just as in selling to the consumer there are certain points which appeal to the jobber and which will sway him over to the buying side when they are presented to him properly.

In the first place you must consider that the jobber is a cold-blooded business man and therefore the elements we call human nature in the consumer are wanting in him and so you can't bank on them in your dealings with him. When the consumer buys he does so with the idea in mind that the article is to supply some need and this is a good substantial groundwork on which to base a selling talk.

With the jobber, however, this need of the product is eliminated in so far as it affects him personally. The sentimental value of the product does not concern him directly either. Summed up there are only three things that the jobber is interested in and to sell him your talk must satisfy him as to these hard and cold facts, namely; (1) that he can make a larger profit on your product; (2) that he can sell a

larger quantity; and (3) that he can sell your product faster than any other.

The first point means that you must sell him your product at a lower price than he can buy any other competitive article for and that your product will command as high a market price. The second point calls for a product of such quality that when sold at the same, or at even a little higher price, to the consumer, it will out-sell any competitive article.

Second, he must be convinced that the quality of your product is the best that his money can buy, otherwise he will not be able to compete with other jobbers who are selling a better article at the same or a lower price. Finally he wants to also be assured of the quantity which he can dispose of in a given time.

There are two sources for this information and these are (1) the market you have created by advertising and (2) the past performance shown by the sales of your product. You must be able to show him that there is as good, or a better, market created for your product as for any other of the same kind and that its sales in the past have been highly successful.

As to the third point this depends upon a combination of circumstances chief of which are a low price to the consumer in relation to other competitive articles, a better quality and a larger advertising appropriation by your manufacturing concern.

By bearing all of these points in mind as well as the points we have enumerated for good salesmanship in the first chapters of this book, you will be able to sell to the jobber or commission man. Also read with particular care what we have said in the chapters on *Expert Buying* for these will serve still further to throw light upon the varied turns of mind that you will find in the retailer and jobber and which you must be prepared to cope with in your selling talk.

Further, the chapters on *Credits* will prove of great value to you in deciding what terms you can best afford to sell your product on, and you should read these chapters on buying and credit with especial reference to the selling end of the game for, as you will presently see, buying is the reciprocal of selling.

CHAPTER VII

MAKING YOUR SALES THROUGH THE MAILS

Advantages of Selling through the Mails—On Securing Mailing Lists—Getting Prospects through Advertising—Getting Agents through the Mails—What Mail Order Correspondence Is—The Art of Sales Correspondence Writing—Kinds of Stationery and Printing—The Use of the Mimeograph—In Regard to Printing Letters—The Psychology of a Selling Letter—How to Put a Selling Punch in Your Letters—The Body of the Letter—About Follow-Up Letters—Enclosures with Letters—Long Letters *versus* Short Letters—Writing Collection Letters.

THERE is still another way of making sales that we have not described and this is by selling through the *mails*.

To recapitulate, you have seen that a manufacturer can sell by means of salesmen to the commission man, the jobber, the wholesaler, and the retailer and make a profit, but that selling direct to the consumer through salesmen is no longer highly profitable.

The mails, however, offer a loophole through which the manufacturer can sell to the general public direct without the intermediary of a selling force and still make a profit.

Advantages of Selling through the Mails.

Now there are certain advantages to be gained in selling through the mails; chief of which is that it obviates the necessity of a large and expensive force of salesmen. Yet at the same time it permits the nationalization of an article or a product and this enables the manufacturer to reap the benefit of consumer prices, or if he does not want the benefits that thus accrue he can underbid his competitors who sell by a more expensive method.

Again the mail order method of selling finds great favor with the public, which realizes that its common enemy, the middleman, has been eliminated and therefore believes that by mail order buying it can secure good goods at bedrock prices.

In mail order selling, stamps, stationery, and well-written selling letters can be made to do the work of a dozen high-priced salesmen on the road. Not only this but the mails go everywhere and there is no limit to the territory you can cover by correspondence, whereas the territory that can profitably be covered by traveling salesmen is limited by (1) its population, and (2) its distance

from the nearest source of supply of the product.

We do not claim that correspondence selling is an adequate substitute for the traveling salesman but that in the matter of comparative costs it is an excellent substitute in some territories. For instance, territories that are only sparsely settled can be sold with far less expense through the mails while thickly settled territories can be sold with far more certainty by traveling salesmen.

Moreover the people of the large cities look with disfavor on mail order buying while in the smaller towns and in the country it is largely patronized. Hence the manufacturer or jobber who makes the most sales with the least selling expense is the one who combines a mail order force with his traveling force for in this way he is able to nationalize his product at a minimum expense.

Of course there are articles, like books of the correspondence school kind, that are adaptable to correspondence selling only. Likewise there are other products such as the motor car, that obviously are not adapted to the mail order business at all. One of the reasons for

this limitation is that the mail order articles are sometimes sold upon the *free trial* and *approval plan* and consequently small articles are much better adapted to this branch of selling than the larger ones are.

But in the majority of business lines personal and mail order salesmanship must be combined to the end that the largest sales can be achieved at the least possible expense. So even if you are running a business successfully it may pay you to read this chapter carefully and to install a mail order department, and so benefit by a gain of from ten to fifty per cent. in sales with a consequent pro rata reduction in your merchandising expense.

On Securing Mailing Lists. Your first need in starting a mail order business is a list of possible prospects whom you want to reach, and whom you believe can be interested in your product, or a *mailing list*, as it is called. Lists of this kind that give the names and addresses of people in every community, town, city and state in the Union can be bought.

Further these lists are classified into professions, occupations, and businesses and in this way you can get a list which contains the

names of people who are particularly interested in your product. Thus if you are manufacturing or handling a motor-car accessory you can get a list, or lists, giving the name of every motor-car and garage owner and of every motor-car and accessory supply house in the United States.

It is easy to see that if your main organization is in the East and your farthest western branch is in Chicago it will be to your advantage to sell in the far West and Southwest through the mail instead of sending traveling salesmen to these remote parts of the country.

For instance where you have a high-grade article of general interest and you want a mailing list of prominent wealthy and well-to-do buyers, you can get the names from *Who's Who*. Many thousand practical suggestions for getting mailing lists at the lowest possible cost are contained in a volume called *A Directory of Mailing Lists*, which is published and for sale by the publishers of this book. They will be glad to send a descriptive circular on request.

Getting Prospects through Advertising. Another way of conducting a mail order busi-

ness is to start an advertising campaign in the newspapers, periodicals, or trade journals. The amount of advertising you do will be limited by (1) your finances and (2) by the product you are marketing.

It is the usual procedure to have a printed coupon attached to the advertisement which the prospective buyer has only to clip from the paper, fill out, and send in to you. The replies you receive from these advertisements will give you a list of active prospects to the majority of whom you can reasonably expect to sell.

A list of names obtained in this way is very valuable because you have already secured the attention, interest, and in most cases the desire to own, of the prospects, before you send them your first letter which ought to and usually does induce the buying action. While this kind of a list costs more than the ordinary compiled list you will find it a *live* one and you should by all means use it for your mail order campaign.

Getting Agents through the Mails. In the plan above outlined it is customary to also make a bid for agents and dealers to handle

your product by adding this request to your advertisements.

Still another plan is to advertise for agents whom you offer to start in the mail order business. In this kind of a proposition you will sell direct, to those who reply, a certain quantity of your product for either cash down or on a credit basis—we prefer the former.

Together with the goods you also send circulars, follow-up letters, order blanks, etc. Then all that your agent has to do is to make up a list of prospective buyers in his home town or the surrounding country and mail out the literature with which you have supplied him. This is a very good scheme providing that you supply the agent with a series of follow-up letters that have a real selling punch in them for it enables you to sell in quantities with a comparatively small office force. All of these plans are shown in Fig. 13.

And right here let us add a word of caution against the evils of misrepresentation especially through the mails. Misrepresentation can be made in advertising, over the counter, on the road, in fact anywhere and everywhere and the salesman responsible for it can get

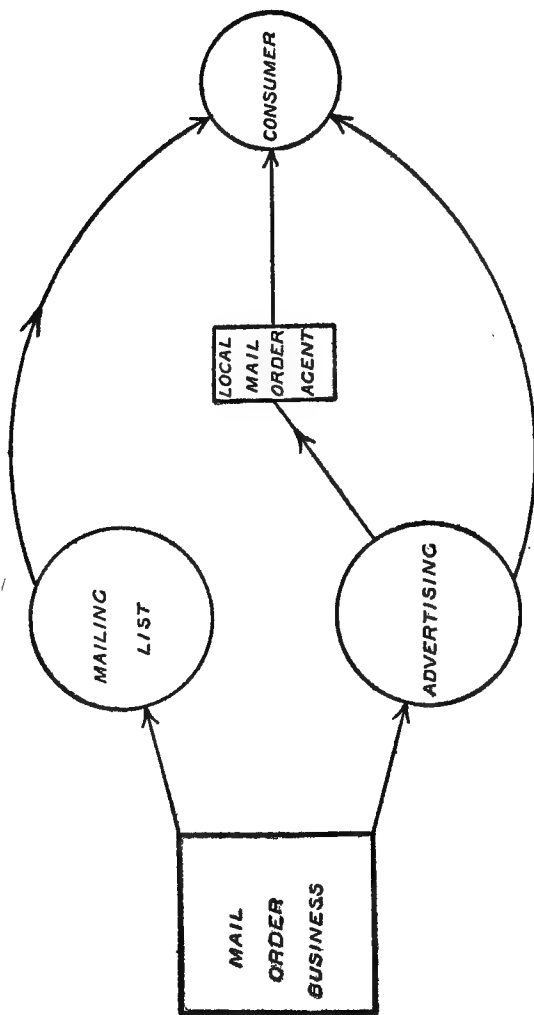


FIG. 13—HOW TO SELL THE CONSUMER THROUGH THE MAILS

away with a whole skin and a slightly damaged reputation.

But to play safe never try to misrepresent anything through the mails for your Uncle Sammy guards against this breach of business ethics very zealously, and he has made violations of it a Federal offense. Having relieved ourselves of this choice bit of advice by way of the prologue now let's go on with the story.

What Mail Order Correspondence Is. Mail order correspondence consists of a series of letters each of which is a selling talk and each of which must be a masterpiece of business literature if any one of them, or all together, are to make a sale for you.

These letters take the place of the personal salesman, greet the prospect in his morning mail, and put up to him a selling talk equal to that of your best salesman if he was there to handle it, and without giving the former a chance to ask a question. The letters must therefore possess all the tact, initiative, mastery, and convincing qualities of a top-notch salesman and they must have in them a point of contact that cannot be ignored.

In other words a successful selling letter

must have incorporated in it the same basic principles of salesmanship that are necessary to a successful selling talk made by a red-blooded salesman. You certainly wouldn't expect a poor salesman to be able to sell your goods to a hard prospect and you can't expect a haphazard selling letter in which none of the laws of selling are complied with to do it.

The Art of Sales Correspondence Writing. You will recall that back there in the chapter on *Selling Over the Counter* we gave you some information about display and we also imparted the advice that, since it is a specialized art, you would do well to employ a display artist to help you make your sales.

What we propose to do in this chapter is to give you the main principles of sales correspondence writing, but our advice is to hire a correspondence writer who can inject into your letters the selling punch. Many men have special aptitude for writing letters of this kind and perhaps you are one of them. If so, after you have read this chapter you will perhaps be competent to write your own sales correspondence.

And let us say right here that simply because

a man is a successful salesman it does not signify that he can write good sales correspondence, as the following episode shows. A large publishing firm was contemplating going into the mail order business. It was the most natural thing in the world for them to pick their best salesman to write their selling literature for them. After the first batch of letters were sent out it was found that the returns were practically *nil*.

Now at that time there happened to be in the new department a young man who was employed in a rather lowly capacity, but with all the confidence of youth he felt that he understood the art of writing letters that would sell books. He wrote and submitted samples and after much argument he was given a try out. His letters were business getters and he turned out so well that he is today the head of the mail order department while the salesman is still on the job in which he has been so singularly successful and that is selling books by word of mouth.

The fact that a man is an adventurer does not at all imply that he can write thrilling tales of adventure, neither does the fact that a

salesman is successful prove that he can write selling literature. Writing is an art and when you want literature the best way to get it and to get the best kind of it is to employ a pen artist who can draw word pictures.

Kinds of Stationery and Printing. In the make-up of a selling letter the stationery used and the method by which it is printed is of the greatest importance. Use a good bond paper and have the printing on it plain and neat and the type small. Avoid complicated designs and fancy type as they make a letter-head look gaudy, are in poor taste, and altogether they distract the mind of the prospective buyer from the significance of the message.

A simple letter head that contains only the essential information needed, and the thought of pleasure, or profit, or both, to be derived by the reader by the possession of the article you offer, sets up in his mind subconsciously a favorable impression that tends to bring him to buying action.

Use envelopes that are designed like and match up with your letter heads. When we say *good bond paper* we do not mean that the paper must be too high grade or costly—

except where you are selling to society women, or to those who think they belong—but at the same time it must not appear flimsy or cheap for stationery of this kind will have the effect of cheapening your selling talk.

The Use of the Mimeograph. Where you want to run off only a few letters at a time a *mimeograph* or some other kind of a duplicating machine can be used and the requisite number of copies can be easily and cheaply made. But where a large number of letters are needed then the printing press may have to be used.

In Regard to Printing Letters. Since you may want to send out anywhere from five thousand to fifty thousand letters at a time, depending on the volume of business you expect to handle you should have them printed.

To do this have your typist write a letter on the machine just as you want it; this done take it to your printer and have him set it up in typewriter type that exactly matches it, and then use an ink that is the same shade as your typewriter ribbon.

Of course you will have blank spaces left at the top for the date, and the name and address

of your prospect and this your typist must fill in with a machine. Also have a space left at the bottom of the letter for your signature.

The Psychology of a Selling Letter. Now the psychology of a selling letter is such that if it is apparent to the reader that the letter he has received is a *stereotyped* form, that is, a mere printed duplicate of an original letter, he may perhaps lose interest to such an extent that he will not even take the trouble to read it through but will throw it into the waste-basket. If, however, the letter appears to be written especially for his benefit, and to all intents and purposes is a direct appeal to him, he may at least read it through.

So in filling in the date, and name of the addressee, the greatest care must be taken to select a ribbon for the typewriter used that will match the color of the printed body closely enough so that it will escape casual detection. A very slight difference in the color of the inks, the style of the type, or the imprint of the latter on the paper will spoil the whole effect of the letter for these things will make the letter lose the personal touch that is so needful to the successful selling letter.

However where an inexpensive article is being sold through the mail you will find that you may get just as good results from your letters by leaving out the name of the prospect and putting in instead *Dear Sir*. With expensive products it has been found desirable to supply the name of the prospect if you are to get the best results.

Finally the signature on each filled-in letter must be written by hand for nothing gives a selling letter more force than the personal signature—supposedly so—of the head of the firm that puts it out. A letter prepared in this way appears to the average man, who is not versed in the art, as if the president of the firm himself had taken the time and the pains to dictate and sign a personal letter to him.

How to Put the Selling Punch in Your Letters. The two most important parts of a selling letter are the opening and the closing paragraphs of it. If these two parts are not handled exactly right no matter how good the rest of the letter may be it will prove a failure. This means that you must exercise the greatest care with these parts.

The opening of the letter must contain the

elements needed to arouse a deep interest in the reader and at the same time it must put you on a friendly footing with him—that is, it must close the point of contact. There is nothing that arouses a deeper interest in the average man than to tell him that you can help him to make money or to save money.

To gain a friendly footing nothing works better than giving the personal *you* and *I* tone to your letter. This is the way the salesman talks and this is the way to make your letter sell your goods. Suppose that you are selling an office appliance that saves time, money, and labor, as for instance a *dictaphone*. The opening paragraph of your selling letter would read like this:

Let me show you how to save money!
I can cut down your office expenses to half what they are now. Every week that you continue to use the old-fashioned tiresome and expensive personal dictation method you are paying for service you do not get.

Here you have touched the tender spot of every man's natural desire for gain and the personal element is brought in by the use of

you and *I* giving the letter a human sound that makes this silent agent supplant the voluble salesman.

In bygone days it was thought good practice to start a letter with such formal phrases as "We wish to call your attention to, etc., etc." Letters were ended with like dry-as-dust phrases such as "Trusting to hear from you favorably, etc., etc." A letter worded in this stiff and formal style today is simply so much paper and ink wasted. Imagine a salesman putting up a selling talk in such trite and stilted terms! He would be a failure, of course, and so will a letter in which they are used.

There is another thing that you must incorporate in the opening of your letter and that is a statement which establishes a successful point of contact between the prospect and yourself. As an example suppose you are selling a patent letter opener in which event you can start your letter off like this.

After you have spent a couple of laborious and tiresome hours opening your morning mail by hand and you reach a breathing spell, I want to tell you about my quick and easy letter opener.

In this kind of an opening you at once establish a point of contact between the business man and yourself by showing him that you are cognizant of the tiresome routine he goes through with every day and that you are ready to hand him a means by which he can save his valuable time and get rid of the irksome task.

Just as a clever opening is needed to make your prospect read your letter, so must the close of it have the punch that will bring him into buying action. No matter how good the letter is if the close of it is weak the prospect will not buy. It is exactly on a par with a salesman who delivers a good strong selling talk to a man and then walks away without clinching the argument.

Instead what the salesman does is to get out his order blank, put his pen into the prospect's hand, and say, "Sign here." The successful selling letter must, hypothetically, do the same thing. The "trusting to receive your order at an early date" close is a failure because it lacks decision and hence buying action, that is to say, it is not the equivalent of getting out the order blank.

To get your prospect to send in his order by return mail you must say something in your close that pricks him into immediate action. The inertia of the human mind is just as strong as that of any material object when it comes to buying, *i.e.*, parting with money, and it requires selling force to overcome it. Fortunately there are ways to do it and one of the best is to offer a cut price for quick action.

Thus a selling letter for a set of books closes like this:

"You have just three days more to take advantage of our special offer. On October 14th, the same set will cost you \$5.00 more. Send for your set *now* and save money."

Or again point out how the prospect is losing money every minute he is without your product and this will urge upon him the necessity for immediate action. Thus,

"Remember our mechano-adder saves you from five to fifty dollars every day. Get yours now and it will pay for itself twice every week."

The Body of the Letter. We have just shown you the importance of a correct opening

and closing form for a selling letter, so in writing a letter of this kind give your best thought to these parts and get them down where you know a man will steal a watch and chain in order to buy and then spend as little time on the body of your letter as you choose.

But when writing the body get right down to facts, tell in simple language and in a straightforward way why he must have your product and the terms upon which he can buy it. It is a noble scheme to have several different plans upon which the article can be bought, for your letters are going to all manner of prospects who are in varying degrees of affluence. Hence terms that are easy for one may be too hard for another. The layout of a successful selling letter is shown in Fig. 14.

About Follow-up Letters. In a few cases your first letter will sell to the prospect, but the majority will fail to buy on the strength of the first letter, due to the same inertia we mentioned a few pages back and it is for the benefit of these inactive prospects that you send out a series of *follow-up* letters.

Even as drops of water finally wear away the granite, so, also, will a series of well-written

follow-up letters overcome this inertia by the cumulative effect of their selling force and

THE LITTLE GIANT
FARM TRACTOR CO.
RACINE WIS.

Mar. 3 1919

J B Reuben
Omaha, Neb.

Dear Sir:

POINT OF CONTACT
INTEREST OF READER

PLAIN STRAIGHTFORWARD
BODY

DECISIVE CLOSE
FULL OF BUYING ACTION

Very truly yours
J. M. Sellers
President

J.M.S.:R.J.

FIG. 14—LAYOUT OF A SUCCESSFUL SELLING LETTER

make the prospect a buyer. Follow-up letters are written on the same principle as the first

letter except that you will in each make the story a little stronger in describing the merits of your product and your offer will become a little easier and more liberal to meet, but withal insistent in demand, in each succeeding letter.

When, after the fourth letter of such a series your prospect fails to reply, you can then take him mildly to task for letting you waste your time and stamps on him and ask him for the courtesy of a reply. If this last attempt fails you can then conclude that it is not inertia on his part but absolute lack of desire for your product that is preventing you from making a sale and your best course then is to remove him from your list of prospects.

Enclosures with Letters. There is much to be said both for and against enclosing other matter with letters but if you do it right then nothing but good can come of it.

The proper enclosure for a letter is a small circular, cleverly worded, designed, and illustrated, that explains the merits of your wares and their uses. Such an enclosure not only heightens the effect of your selling letter but often carries the weight needed to make the

prospect buy where your letter alone would not.

A circular is at its best when it is printed in colors and illustrated, for man is still closely enough related to the savage so that colors please him, and yet he is civilized enough to want to know how everything works. A circular of this kind is a selling talk in itself.

Long Letters versus Short Ones. No business man will take the time to read a long-winded letter, so in writing letters to business men let them be short and full of *pep*. On the other hand people who live in the rural districts will read long letters through, not only once, but several times if your opening paragraph appeals to them.

But as a rule long letters are taboo, for with them just as with personal salesmanship there is such a thing as over-talking your subject, that is, after working the prospect up to the point where you have all but induced the buying action—instead of clinching it the resolve peters out in the reading.

Writing Collection Letters. In mail order selling the article is often sent *on approval*, that is, it is sent to a prospect who is given

the option of returning it if he is not satisfied, or paying for it if he keeps it. Further it is customary to allow him time in which to pay for it, that is, credit is extended to him.

As a consequence of this procedure in making sales through the mails you will very often run up against one of two propositions, and these are (1) the prospect after receiving the product on approval will deliberately fail to return either the cash or the product, and (2) he will make a few payments and then stop.

The first default is theft pure and simple. In handling a case of this kind it is the best procedure to assume that the prospect is still considering the matter of buying it but that he has not yet fully made up his mind. Write your first letter on this basis but if you do not get a reply then write a second letter with the request that the article be paid for or that it be returned at once.

You can, if this does not bring the price or the article, write a third letter stating that unless one or the other is immediately forthcoming you will have to take the matter up with the Federal authorities. If this letter fails to have the desired effect your only re-

course is to lay the matter before the post-office officials, for the man has obtained the article through the fraudulent use of the mails.

The second case must be treated a little differently and you work on the assumption that the customer's intentions are probably honest, but either through carelessness or lack of funds he has failed to keep up his payments. This breach of contract simply resolves itself into a case of *collection* and you will find detailed treatment of this disease in the chapter on *Making Collections* as well as directions for writing collection letters.

CHAPTER VIII

KEEPING A MAP AND TACK GRIP ON YOUR BUSINESS

What the Map and Tack System Is—Map and Tack Appliances You Need—The Map Cabinet—About the Maps You Need—The Thumb Tacks—The Colored String—The Map and Tack Card System—Mapping Out Your Business—Traveling Salesmen *versus* Resident Agents—How to Use the Card System with Maps—Keeping a Map and Tack Grip on Your Business—What the Maps Show You—Cross-Indexing Your Sales—To Determine the Value of Local Advertising.

THE successful business man is one who is able to *visualize* the operations and policies of his business, that is, he is able to project a clear-cut image on the screen of his mind and to mentally view these various activities as though he were looking at a moving picture.

Now in a large number of lines of trade where traveling salesmen are employed the business man finds himself up against the proposition of keeping tab on them, his customers, and on his prospects; and his success depends almost altogether upon the extent and means he employs to overcome these

obstacles by taking rational and speedy action on short notice.

This state of affairs has led the successful sales manager and buyer to develop a scheme for visualizing not only his firm's policies but the *actual selling campaign* as it is being carried on from day to day. This is known as the *map and tack system* and by means of it the efforts and results of any kind of a selling or buying force, no matter how far away they may be from you, are brought immediately under your personal supervision, that is, you *visualize* them.

This system is simply an extension of the card system described in Chapter II, Part I, and while we shall explain its uses in detail in this chapter in its relation to selling, it can also be used just as effectively for a buying force in connection with the tickler file.

When you come to the chapters on buying and especially Chapter II, Part III, you will find out all about the latter device. A combination of the tickler file and the map-and-tack systems will enable you to keep an eye-that-never-sleeps, and a handcuff-grip, on your selling forces and on their sales.

What the Map and Tack System Is. The name "map and tack" is self-explanatory of the system as a whole, but in detail it consists of one or more maps, that show the selling territories, on which are arranged vari-colored tacks and strings to represent the necessary selling data.

By the simple manipulation of these concrete and visible things the activities of a force in fields however distant are brought to a sharp focus and under the direct gaze of the sales manager. In point of value this system is next to placing the sales manager right on the actual selling ground. From this it is easy to see that the map and tack system is highly useful in any business where the majority of the activities are carried on in distant fields and must of necessity be controlled and directed from a central office.

It is a valuable part of the sales manager's scheme and system of organization for keeping a comprehensive grip on the selling force and its sales and it brings home to him the important events of the campaign by placing them directly before his eyes.

Map and Tack Appliances You Need. The

size of the map and tack system you need depends upon three things and these are: (1) the extent you rely on it to keep you informed; (2) the size of the selling force you employ; and (3) the expense you want to incur in the purchase and maintenance of the initial layout.

The best plan to build up a map and tack system is to map out a few of your territories and then expand your system gradually as the volume of business you are doing warrants. Whatever the size of the map and tack system you want to start with you will need the following appliances, namely: (1) a *map cabinet*; (2) the *maps*; (3) some *tacks*; and (4) balls of *varicolored string*.

The Map Cabinet. This cabinet is simply a case of shallow trays large enough to hold the maps so that they are handy for quick reference. Practically any kind of a case will do if the drawers are long and wide enough to hold the maps and are not too deep.

The proper kind of a cabinet has a number of drawers each of which is about one inch deep and, let's say, three feet on the sides to contain the maps of the various territories your salesmen are covering. You can have a

carpenter or cabinet maker make a cabinet for this purpose, or better you can buy one ready to use. There is only one map put in a drawer so that when you want to use it you have only to open the drawer.

The number of drawers in the cabinet depends entirely on the two following things, (1) the volume of business you are doing and (2) the scale of the maps you are using. The first point at issue, of course, depends to a considerable extent upon the kind of territory your salesmen cover, while the second point will be more fully explained presently.

Since the drawers are of the above mentioned size you can fit into each one a map of a territory, or part of it, depending on its size and, in passing, this must be large enough so that you can read it. Thus if you are operating in twelve territories you will need twelve drawers in the cabinet.

It is a good plan to have your cabinets built in sections, each of which contains twelve drawers, after the style of the sectional bookcase. In this way you can easily take care of the extra maps required as your business grows. The bottoms of the drawers are made

of soft pine about $\frac{1}{4}$ inch thick so that the tacks can be pushed into the wood easily.

About the Maps You Need. The maps should be good and large and plainly printed in colors showing the principal railroad lines, highways, and roads and having the cities, towns, and villages accurately placed upon them.¹

Each map must be a full and complete one of a given territory or if you are operating in a small section of a territory intensively you must get a special *large scale map* of that particular part of the territory.

Now by the *scale of a map* we mean the size it is drawn to compared with the real size of the territory it represents. For the sake of convenience maps are drawn to various scales depending on what they are used for. In the lower left-hand corner of every map you will find a graduated line with numbers marked on it that shows what scale the map is drawn to, thus: 1 inch = 5 miles, which means that one inch on the map represents five miles of actual territory.

¹ These maps can be bought of C. S. Hammond & Co., 30 Church St., New York.

For the map and tack system scales of from five to twenty-five miles to the inch are good ones to use, the larger scale being used, of course, on maps where the territory is thickly settled and the centers of business interest and activities lie closely together. As the chief value of the map and tack system lies in your being able to comprehend the situation at a glance, the larger the scale the maps are drawn to the easier it will be to do this.

The Thumb Tacks. Tacks are used to represent the different centers of interest to the sales manager and chief among these are his salesman and agents, customers, and prospect. Since all of these cannot be represented by tacks having heads of the same color the following color code will be of service to you for it will enable you to distinguish one from another at a glance.

Green Tack	- - -	Exclusive Agent
Red Tack	- - - -	Traveling Salesman
Black Tack	- - -	Customer
White or Plain Tack	-	Prospect

Thumb tacks having heads of these various colors can be bought of stationers or dealers in

drawing materials; they have large flat, enameled heads with short, sharp-pointed steel shanks. All you need to do to put them into the board of the drawer is to press on them with your thumb.

The Colored String. You will only need three colors of string and these are green, red, and black. The green string is used to enclose the area held by an exclusive agent if it is larger than a city; in case it only covers a city of course a green tack is sufficient.

The red string marks out and indicates the territories taken by your traveling salesmen while the black string is used to show where the men are from day to day, just how much of the territory they have covered and just how much they have yet to cover.

The Map and Tack Card System. From what we have said above and the description of how to use the maps which follows shortly you will see that by means of this system you can, like an East Indian mahatma, project your mental self through space in the twinkling of an eye and camp on the actual ground your salesmen are covering.

In this way you can gain a wealth of infor-

mation and the only thing that is lacking is a scheme for recording the data thus obtained from your maps day by day, for as you alter the tacks and strings in accordance with the movements of your traveling salesmen the information they gave you yesterday and the day before is likely to be forgotten to-morrow and the day after.

To make the map and tack system a complete success a *card index system* is necessary and this consists of four separate and distinct sets of index cards, namely: (1) an index card having at its top the name of the city or town and having at its bottom the name of the salesman or agent handling that city or town; (2) an index card having at its top the name of the salesman or agent and having at the bottom the name of the city or town; (3) a *blue index card* having at the top the name of the customer and at the bottom the customer's purchases and needs together with the salesman or agent who sold him; and (4) a *yellow index card* having at the top the name of the prospect and bearing the same information. These cards are shown in Fig. 15.

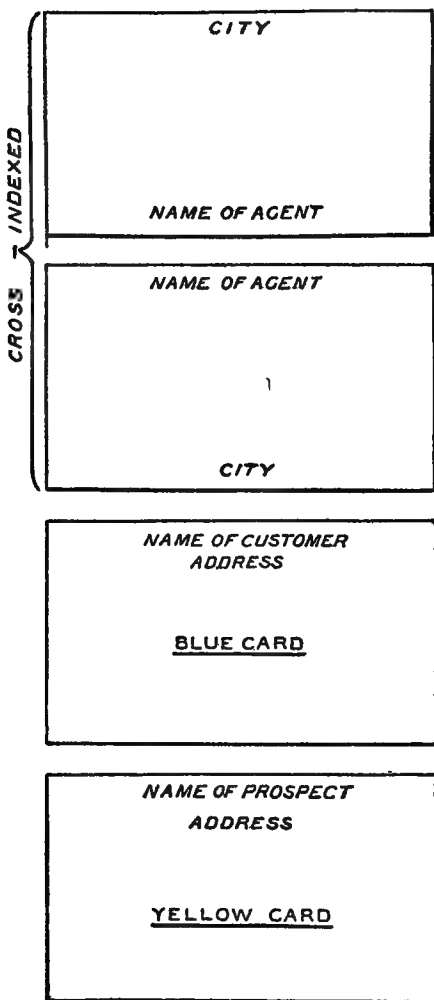


FIG. 15—MAP AND TACK CARDS

These last two cards are filed alphabetically by name under the different territories they fall in. The first two sets of cards while apparently the same are simply to enable you to cross-index towns and salesmen. By means of this method of filing you can instantly find out just who the agent is in a given town or just what towns a given agent is selling.

The card index system used in conjunction with your maps gives you a permanent record of what has been, is being, and is yet to be done that can be had and kept in no other way and, as you see now as well as later on, it is an admirable method and an invaluable aid for getting the right angle on your selling force.

Mapping out Your Business. Knowing now how the map and tack system works, the next thing to do is to apply it to your selling force. To begin with there are two things that you can easily do with it right at the start, both of which will save you time and trouble.

These are (1) laying out routes and mapping territories, and (2) following your salesmen day by day and watching them do their work. Now let's see just how the map and tack system works out in a specific case. Suppose

that you are handling sales for an automatic feeding device for poultry and that you are sending Brown out to cover northern New Jersey, and sell direct to the retail trade.

Take your map of northern New Jersey, lay it out on the bottom of one of the shallow drawers and with four ordinary thumb tacks secure it at the corners. Next take your red thumb tacks and red string and start anywhere on the perimeter, that is the outside boundary, of Brown's territory, insert a tack in each of the cities and towns on it until you return to the first tack, when you will have a tack outline of Brown's territory.

Then take your red string, tie the end to one of the tacks in the outline, carry it on, and give it a turn around each succeeding tack until you return to the tack you started from and tie it there. The area you have thus enclosed is Brown's territory. In the same way you can easily map out territory and allot it to your salesmen without any danger of its overlapping, that is, of assigning a portion of the same territory to two or more salesmen at one and the same time.

Having laid out the territory the next thing

is to outline to Brown the route he shall follow in covering it. This is done by starting on the perimeter, at a city or town nearest your home office, and inserting tacks in the cities and towns which in your judgment will prove profitable and to which you want Brown to sell.

In doing this you must use all due care in mapping out the cities and towns in sequence so that the route is as short and easy as possible and, what is even more important, that Brown will not at any time have to double back on his tracks and thus cover the same ground twice.

Now take your black string and tie the end to the tack in the last city or town on his route and go on to each preceding city or town that he will hit and give it a turn about each tack; continue in this manner until you reach the first city or town that Brown is to sell to and there tie the string to the tack in this city or town. The black string will then be wholly within the red stringed enclosure and will represent Brown's route.

Having given Brown his final instructions and sent him on his itinerant way rejoicing, you are then ready to follow him in his travels and tribulations. When you get Brown's first

report card you will know he has reached his town and you will then untie the black string from the tack in the first city or town and wrap the free end of it around the tack in the next city or town which Brown is scheduled to reach sometime in the near future. Keep on in this fashion as Brown progresses on his route and you will then be able to tell exactly where Brown is by simply glancing at the map. See Fig. 16.

Traveling Salesmen versus Resident Agents.

You will find very often that in certain towns and territories you can get a jobber, wholesaler, or retailer to handle your line and do as much or more business for you at less expense than if you sent traveling salesmen into the same territory. Where such a condition obtains of course it is to your advantage to turn your line over to a resident agent as he is called and give him the exclusive right to sell in that city, town, or territory.

Where a resident agent sells to a city or town you simply push a green tack through the part of the map that represents it. But if he commands a territory put a number of green tacks around its perimeter and connect them

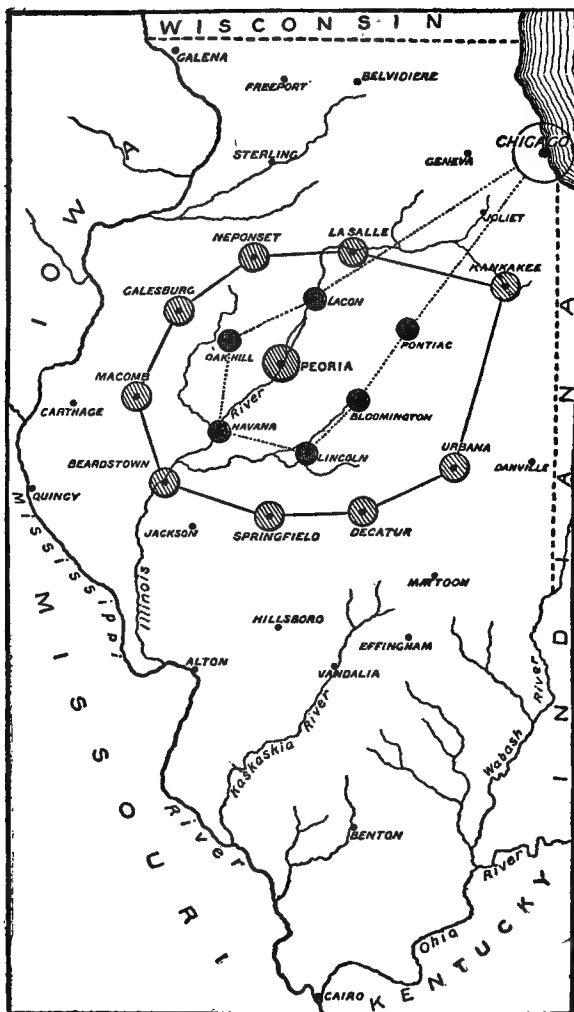


FIG. 16—MAP AND TACK SYSTEM APPLIED TO YOUR BUSINESS

with a green string, thus plainly marking out his agency. Also put a green tack in the city or town where the resident agent has his headquarters.

When mapping out territories for your traveling salesmen and for new resident agents who are going to handle your goods, you must take particular care not to encroach on the territory you have already allotted exclusively to some of your other selling force, for nothing makes a fellow so angry as to find someone poaching on his little preserve.

How to Use the Card System with the Maps. To get the full benefit of your maps you want to make use of the information they afford by taking advantage of your index cards at the same time. To do this file the cards containing the data away for future reference; the first two cards mentioned under the heading of the *Map and Tack Card System* can, of course, be filled out before your salesmen start on the road.

As the daily reports from your salesmen begin to come in you manipulate your maps accordingly, putting black tacks in the cities and towns where your salesmen have taken

orders and white tacks in the cities and towns where lively prospects are located. From this material you now fill in your blue and yellow cards which we mentioned before and file them alphabetically.

All of the mechanical work entailed in map manipulation and filing operations you can have done by low salaried employees and hence at small expense.

On the other hand a well operated map and tack system needs constant watching and every change must be made upon it the moment fresh information is received, for unless the cards are kept right up-to-the-minute it will not give you the service you need. As soon as prospects are sold and become customers the white tacks must be replaced by black ones, the yellow cards, removed, and new blue ones made out.

Keeping a Map and Tack Grip on Your Business. Now let's go a little deeper into the way a map and tack system is of use to you in keeping a firm grip on your selling force. There are three chief things that you can discover from your maps at a glance and these are: (1) undeveloped fields; (2) the results of

your salesmen; and (3) the results of your advertising.

Your maps will show you where there are territories which your salesmen have not yet covered and you will know in an instant where to direct an inquiry so that you can get a line on whether an undeveloped field is worthy of exploitation. In connection with this use of the maps it is an excellent plan, if your business warrants it, to use the following device which will serve to show not only undeveloped fields but the strength of competition in the fields you are already operating on.

A separate series of maps can be laid out showing the territories in which your competitors are operating and in which they are the strongest. Such a series of maps will be of great assistance to you in mapping out the territory for your own traveling salesmen. For this purpose you will find a large wall map better than a number of smaller maps.

From your maps and cards you can obtain the results of any individual salesman on the force and you will be able to tell at a glance the sum total of the selling power of the individual salesman. Thus a large collection of

black tacks in a territory means that the salesman is a *live wire*. Many white tacks and a few black ones indicate that a large number of prospects have been called upon though but few have been sold. If after a reasonable length of time the percentage of black tacks does not increase and multiply it is your cue to find out where the trouble is.

As a further aid to you in this line it is profitable also to cross-index your sales and prospect cards as to territory. You will then be able to gain the same information from your files, except, of course, that it will be more detailed and complete and, hence, of increased value to you.

From these sources of information and the financial, weather, and salesman's reports, you can arrive at a fairly definite conclusion as to whether the trouble is with your salesmen or whether the territory is dead, and ought to be buried.

The Value of Local Advertising. And finally the value of local advertising can be determined in the same fashion by the sale you are making. If you are advertising to an equal extent, that is commensurate with the popula-

tion, in all the sections you do business in, and you find that you are getting far better results in some territories than in others, find out first whether your selling force is at fault.

If it is doing its best then it is a pretty good sign that the field is inherently sterile and that you are throwing good money after bad in advertising heavily therein. When you once get into the habit of using this system you will be surprised how much routine it will lift from your shoulders and the extent to which you are able to feel the pulse of your business beating by means of it.

You will also find as you grow skilled in its manipulation and in interpreting the meaning of its varied phases that it is the only original cure-all for doctoring up all kinds of sick and declining sales.

Part II
Expert Buying



CHAPTER I

THE ESSENTIALS OF SHREWD BUYING

Tangible and Intangible Merchandise—Shrewd Buying Lowers the Cost of Production—The Applied Principles of Shrewd Buying—Training a Good Buyer must Have—What a Good Buyer must Know—What the Buyer must Know about his Goods—What the Buyer must Know about Demand—What the Buyer must Know about the Houses he Buys from—Two Kinds of Buying.

HAVING read now about the various phases of *selling* you are ready to learn something of the second great branch of merchandising and that is *buying*.

Now buying is the reciprocal of selling, for it is obvious whenever goods are bought or sold there is a mutual interchange between these two actions and, hence, these prime parts of merchandising are so closely allied that if you are proficient in one you must be efficient in the other. See Fig. 17.

Tangible and Intangible Merchandise. Every business, no matter what its nature, is based on the buying and selling of (1) tan-

gible effects, or *merchandise*, as goods, wares, or commodities are called, and (2) intangible effects, or *service*, as labor and professional assistance are known.

There is no such thing as a business where selling alone or buying alone is the sole and only operation. Manufacturers must buy raw materials and jobbers and retailers must buy finished products before they can sell, and having once bought they must in turn sell to keep on doing business.

From this, you can see that buying is just as important a part of merchandising as selling and this is due in a large measure to the highly competitive market that we are up against to-day.

As a shining mark lets take a firm that manufactures spark-plugs. There are approximately one hundred spark-plug manufacturers in this country, and strange as it may seem the plugs turned out by all of these companies are as like as a hundred peas laid in a row in their design, construction, and operative merits.

This being true not one of these hundred firms can lay claim to any distinct or real

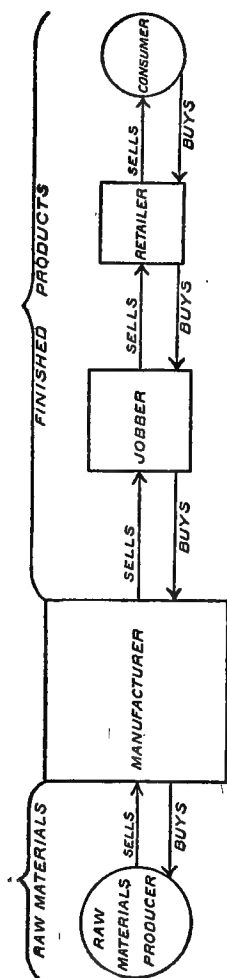


FIG. 17—BUYING IS THE RECIPROCAL OF SELLING

advantage over the others. To sell an article where there is such strenuous rivalry requires ability of a high order and the plug that is advertised the most widely, made of the best materials, and sold at the lowest price will naturally sell the easiest.

Shrewd Buying Lowers the Cost of Production. There are several things that make up the cost of production and these are (1) the quantity manufactured; (2) the cost of labor; (3) the cost of overhead; (4) the cost of selling; and (5) the cost of raw materials.

In not only the spark-plug business but many others as well the first four factors can be and are brought to practically one and the same standard by each and every company. The one outstanding factor, though, which is always more or less variable is the cost of raw materials; this is where qualitative buying comes in, and this can make or break a manufacturer's chances of competing in a close market as the case may be.

A manufacturer who can buy his raw materials at a lower cost than his competitor can make a plug of equal merit at a lower selling price and, consequently, he can come pretty

nearly owning the market. So upon the skill of the buyer largely depends the ability of the manufacturer to get his share of the trade in a highly competitive market.

Now while we have used the manufacturing business here as a type for the sake of exemplification and discussion, what we have said applies equally well to the jobbing, wholesaling, and retailing lines of trade and so we can add that shrewd buying is the thing that enables all lines of trade to keep afloat in the sea of big business to-day.

The Applied Principles of Shrewd Buying.

The greatest degree of profit making in a business is attained only by a carefully balanced business machine where the two great levers of merchandising, buying and selling, operate at their maximum efficiency.

It makes not a bit of difference how good your selling force is, if your buying force is not up to the same high standard it acts just as though you had dropped a monkey wrench into the gears of your business machinery and will cause your ultimate downfall.

There are two great factors in buying cheaply and these are: (1) having the ready

money and (2) buying in large quantities. The larger the quantity of materials purchased the cheaper it can be bought and, where time must be had, the better the terms the buyer can make for its payment. Often the financial resources of a firm limit the quantity of goods that it can buy and, further, future market values and conditions limit the quantity of material that should be bought.

For instance, a clever buyer makes an opportunity for his firm to buy an extra large quantity of a certain staple commodity at an exceedingly low figure. The very fact that the commodity is a staple assures it of a steady and continuous sale. But lets assume that this particular commodity we are talking about is a slow seller and that it would take a couple of years for the firm to dispose of the entire lot.

Again lets say that the finances of this firm are limited and it is necessary that for every investment it makes there must be a quick turn-over in order to keep things going. Under such untoward conditions the buyer would be unwise to buy even though getting the commodity at a great reduction, for the turn-over

would be so slow it would be sure to cause his firm financial embarrassment.

Now let us take another example: A buyer is offered an exceptionally low price on a large quantity of novelty goods. Novelties as you may or may not know are freaks and hence their steady as well as their continuous sale is uncertain. Again it would be poor policy to buy a large stock of such goods for (1) there is no telling how rapid the turn-over will be, and (2) the market may go to pieces all of a sudden when of course a heavy loss will be sustained by the firm. This is exactly what happened to the manufacturers and dealers in pyrographic, *i.e.*, wood-burning, outfits a few years ago.

In both the preceding cases, though, the buyer will be severely tempted for on the face of things they are apparently good investments and since he must buy, it seems like folly to buy in smaller quantities, pay larger prices, and get poorer terms. But this is just where the shrewd buyer excels for he not only knows a good investment from a bad one, but he is able to buy in small quantities advantageously.

Shrewd buying, then, may be said to consist of two things (1) the ability to recognize and distinguish good investments from bad ones, and (2) the ability to drive the best possible bargain whatever the quantity of materials his firm needs. As you will gather later on, for a buyer to possess these two essentials he must have an intimate and infinite knowledge about everything that has to do with his business.

The Training a Good Buyer must Have. For a man to become a shrewd buyer, provided he has all the other requisite qualifications, there is only one school that will turn him out at the head of his class and that is the school of experience.

The first thing that the buyer must learn is salesmanship from A to Z in all its varied ramifications, for it is his business to constantly deal with salesman and he must know all the ins and outs of their ways and their strong and weak spots if he is to beat them at their own game.

Second, the buyer must be trained in manufacturing and merchandising methods; he must have an accurate knowledge of raw materials, their production, manufacture, mar-

kets and the conditions that affect the latter, in fact he must know the production end of the business he is buying for from the ground floor up.

Third, he must be a trained executive and know and understand thoroughly the policies of the firm he is buying for, to the end that he may conform to them. Not to know these things makes coöperation impossible and disaster a foregone conclusion.

And fourth, and finally, he must peer into the future and his pre-vision must not fail him. No successful buyer can afford to confine the limits of his mind's eye to the present, for big business has as its goal the future. Buyers who buy for the present alone fail sooner or later because three quarters of buying judgment is futuristic. Hence the training of a buyer must be such that he has a clear foresight of the future activities in his field.

What a Good Buyer must Know. We have just given you a general idea of a few of the things a buyer must know in order to buy well and we shall now tell you of some of the definite and specific things that he must know to buy shrewdly. As we mentioned above, or

what was equivalent to it, a buyer must be absolutely familiar with (1) his own house, and (2) the goods he is buying; and now let's see just how these things influence his judgment and therefore his buying. Figure 18 shows diagrammatically what a good buyer must know

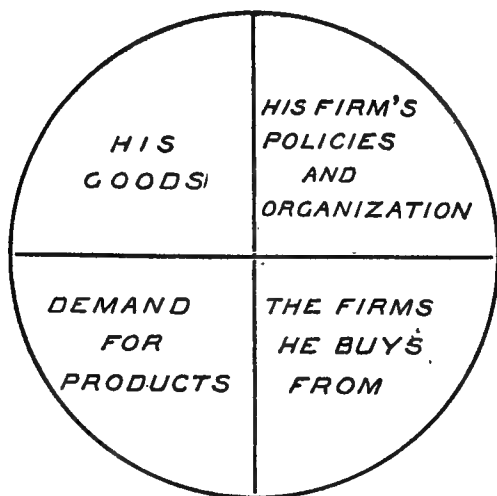


FIG. 18.—WHAT A GOOD BUYER MUST KNOW

Why a Buyer must Know his House.
There are four chief things that a buyer must know about his firm or house and these are: (1) the condition of its finances; (2) its policy; (3) the manufacturing processes of its products; and, finally (4) its organization scheme.

The condition of its finances can be split up into two parts and these are: (1) the actual working capital it has on hand including its available credit and (2) the financial forecast for the future. He must know these points for two reasons, namely, (a) that he may determine which are the most advantageous terms to buy on; thus, if heavy demands are to be made on the firm's resources he must do *pinch buying*. And (b) the firm's resources determine the quantity of goods that he can safely buy; weakened resources or resources that are likely to be weakened in the near future dictate pinch buying.

The policy of the firm or house is equally important. The owners and directors will have mapped out a policy which entails either expansion or curtailment. In either case it is of vital consequence for the buyer to know exactly what it is.

If the policy is one of expansion, heavy buying is permissible providing all other conditions are favorable. But if the policy is one of curtailment the buyer must of necessity do pinch buying. For the buyer not to conform to the policy of his firm or house is to court

disaster, a fluke may cause a lot of inconvenience. The moral is, that a buyer must not make mistakes.

In many concerns the buyer is called upon to buy everything pertaining to the house needs, from raw materials and machinery to laboratory equipment and office appliances. Finally he must know all about the organization of the firm or house. It is his business not only to buy in quantities but to act as a check on the department whose heads must make occasional small purchases and to see that they do not overbuy or underbuy.

What a Buyer must Know about his Goods. The major portion of a buyer's knowledge relates of course to his goods. It covers a very broad field for it is not limited to the technical details of the goods themselves as is that of a salesman.

The buyer's learning includes (1) a clear insight into the law of supply and demand; (2) full information concerning houses that sell the kind of supplies he buys and of their selling methods.

The three chief things that a buyer must keep in mind about the goods he buys are:

(1) their quality and price; (2) their intrinsic values; and (3) the market for them. The matter of quality and price is essential to fair buying. There are often several, sometimes many, grades of every kind of raw material and marketable product ranging down from good, through indifferent, to bad and worse, but for every quality there is a fair and legitimate price it is worth—no more and no less.

This has to do to a large extent with values but not altogether so. The buyer must not only compare the product he is buying with other competitive products on the market, but with an ideal product or material, that is to say, one which is 100 per cent. perfect.

As an illustration take the cotton or tobacco crop. At certain times of the year there is a drop in the quality of the whole crop due to weather conditions and especially is this true in some localities. Clearly for a buyer to buy even the best grade of this inferior crop and pay anywhere near the full market price without reference to the perfect product is for him to cheat himself and his firm.

A complete acquaintance with market conditions is naturally an essential in buying.

With every kind of raw material there are certain fluctuating conditions which affect the market as far as quantity is concerned, and hence the price, and this causes the market of finished products which are made from them to fluctuate also.

Thus crops are affected by untoward weather and insect pests; ores and lumber by labor troubles; and the transportation of all of these materials by both weather and labor conditions. For these reasons, at one time it is a good investment to buy, but at another time it is better to hold off or do pinch buying.

The element of time is a most important factor in buying and it is the buyer's clear perception and keen judgment of the past and present conditions and their effect upon conditions in the future, provided he is right, that makes a man a shrewd buyer.

What the Buyer must Know about Demand.

The buyer must have a thorough knowledge of the demand for the raw materials needed by his firm or company and for the finished product sold by it to the trade.

Every manufacturing plant maintains a certain standard under which it is scheduled

to operate when running at its full capacity. The buyer must know what the schedule is so that he can buy the right quantities of raw materials at a time and also what to provide for future needs.

If the buyer fails to buy the necessary quantity of materials to keep the factory running up to its schedule a change will have to be made in the production output and this is an expensive deal.

The buyer for jobbers, wholesalers, and retailers must also have a good grip on supply and demand for the reasons mentioned above. As we have indicated, goods may be divided into two classes and these are (1) *staples* and (2) *novelties*. A staple is an article of necessity for which there is a constant and certain demand. A novelty on the other hand is an article that catches the fancy for the time being.

Fancy is always fickle and there is no sure way to definitely estimate what the demand for a novelty will be or to determine even roughly how long it will hold the interest of the public. Once in a while a novelty grows in favor until it becomes a staple but this

seldom happens if the article is not one of utility.

The buyer must guess the depth of popular favor in a novelty and gauge the quantity he buys accordingly. The closer his guesses come to hitting the mark the better buyer he is. Buying the raw materials for or the finished product of novelties is therefore a harder game than buying staples. But even the demand for staples is subject to change although the change is never a sudden one as with novelties and the market can be accurately forecasted by the experienced buyer.

What the Buyer must Know about the Houses he Buys from. In the early part of this chapter we stated that the buyer must be an experienced salesman. This is because he must have an intimate knowledge of how selling and salesmanship are carried on in the different firms he deals with.

There are five important things that the buyer must know about the firms he deals with and these are: (1) their locations relative to his own plant or house; (2) their reputations; (3) their resources; (4) their operating *bases* (plural of basis); and finally (5) their selling policies.

The location of a house is important because of the shipping problem which affects the expediency of delivery. Shipping is one of the bugbears of the buyer. It stands to reason that in almost all cases the firm to buy from is the one nearest the point of delivery, all other circumstances being equal.

Some factories and houses have very poor shipping facilities and these are good places to steer clear of when you are in urgent need of the goods you buy. It is sometimes a better scheme to pay a little more and be assured that your order will reach you in time, rather than pay a little less and lose out on a sale or a contract because you can't get hold of the materials to deliver or fill it.

Another point is that the proximity of a firm does not always indicate certainty of speed, or surety of delivery. As before these essentials depend upon the facilities of the firm you have bought from and the transportation arrangements it has made.

The reputation of a house is also of great weight and by knowing all about it the buyer can tell whether it will keep its promises. Many salesmen will promise anything to

make a sale but the likelihood of fulfillment can be pretty accurately checked by a record of past performances.

The buyer must also be conversant with the resources of the firm he is dealing with. Take a buyer for a big jobbing house which has advance contracts to supply several wholesalers with a certain product in a given time. If the buyer puts his order with a manufacturer whose finances are shaky and who fails to fill all of the order, the jobber of course can't get his goods in time for delivery as per schedule and this will cause the wholesaler to cancel his orders and to lose the good will of his customers. If the buyer had known that the manufacturer was operating on the ragged edge of nothing he would not have fallen into such an error, and to the end that you may be saved a like experience read the chapter on *Credit*.

To know what the operative basis of a house is, is of deep concern to the buyer. Of course in these days of modern business methods and up-to-date systems most firms know down to the fraction of a penny the exact cost of production and therefore the price they can sell for.

You will though, at times, run up against firms that are extremely lax and to which the exact cost of production is an unknown quantity. In such cases you may find it possible to buy for less than the actual production cost and more often for less than competitive products are selling for.

And, lastly, a buyer must know the selling policies of the houses he deals with. The price-lists issued by these houses are usually far from being true guides of selling prices for the buyer; very often, indeed, the prices quoted are in excess of the intended selling prices.

The reason such price-lists are put out is so that (1) they will give no information to competitors and (2) when an apparently large discount is given, the average buyer feels that he has been favored.

A knowledge of firms and houses that resort to such tricks of the trade enables the buyer to know when he is buying at bed rock and when the prices quoted him are or are not excessive. There are firms, however, that make their first quotation their last one and to know these houses is to save time and argument.

Two Kinds of Buying. In general there are only two kinds of buying and these are: (1) the buying of raw materials and (2) the buying of finished products. Under the head of raw materials comes manufacturing buying; while under the latter head comes jobber, wholesale and retail buying.

Now all that we have said in this chapter applies to both of these kinds of buying. The ideal buyer for either the manufacturing or the finished products trade is one who has had experience in both branches for he then knows the exact processes and materials a product is made of and at the same time he has a thorough understanding of the selling end of the business, or the other way about.

When you find a buyer who has had this kind of a wide experience and who possesses the other qualities cited in this chapter, hold on to him.

CHAPTER II

BUILDING UP A BUYING MACHINE

The Organization of a Buying Machine—The Assembly of the Buying Machine—Some Branches of the Buying Machine—The Tracing Department—The Receiving Department—The Distributing Department—The Accounting Department—About System in Buying—Information through the Perpetual Inventory—System Used in the Placing and Tracing Department—How the Order is Kept Track of—What a Tickler File Is—How the Shipment is Checked up.

JUST as an organized selling force is of paramount importance to your business so also is an organized buying force a vital necessity to back it up. The reason you must have an efficient buying force is that your market is a competitive one and to make a profit you must *buy cheap*.

No matter how great the merits are of the article you are going to sell, if you can't buy the materials and turn it out as cheaply as an opposition manufacturer, or buy the ready-made article at as low a price as a competing jobber, you can't make up your losses on your sales.

From this it is plain that you must use as much, if not more, judgment in organizing a buying machine that will attain a close approximation of perfection, as you do in the organization of a one hundred per cent. efficient selling force. As we said in the last chapter buying is the first half of your business and it must be reckoned with if you are to conduct the other half successfully.

Incompetent and unwise buying has been the cause of more failures of otherwise successful merchandising concerns than anything else, if we except bad credits, and the only way to steer clear of this pitfall is for you to organize a buying machine that you know will not make mistakes.

The Organization of a Buying Machine. Now as with a selling force there are two important parts to a buying machine and these are: (1) the organization itself and (2) the system that must be used in conjunction with the machine.

Back there in the first part of this book we cited that the advantages of organization lay largely in the definite fixing of duties and responsibilities, and this is likewise true of

the buying-machine organization. The first consideration is a head who is responsible for the operation of the machine as a whole and this man is usually known as the *head buyer*.

The head buyer of a buying machine corresponds to the sales manager of a selling force and his is the master mind that directs the efforts of the buying machine and makes it what it must be. Without him the efforts of the buyers would be inarticulate and disjointed and nothing would be accomplished right.

Just as the sales manager must be a master salesman so the head buyer must be an expert buyer and only a long and varied experience will produce such a man. Although your machine may employ buyers of comparatively small or narrow experience your head buyer must be all knowing to direct them.

In establishing a buying machine pick a head buyer whom you have confidence in and then let him use his genius for the choice of the rest of the force. As with a selling force there is only one method of organization that will prove highly profitable although there

are many variations of this method in use, some of which will be better adapted to your line of business than others.

Your head buyer is primarily an executive and he will therefore have ideas of his own as to the manner of the organization he is going to direct. This is fitting and proper and to get the results that both you and he want, you must do everything in your power to help him in carrying out these ideas as long as they meet with, and conform to, the policies of your firm.

The Assembly of the Buying Machine. In the organization of a safe and sane buying machine the first essential is the department that buys or places orders; and this, of course, consists of the buying staff under the direction and supervision of the head buyer.

In a large concern the buying staff consists of two kinds of buyers and these are: (1) domestic buyers and (2) foreign buyers. The domestic buyers are of course always on the alert for buying opportunities throughout our United States. Since the latter is but a very small part of the world's great markets of raw

materials and finished products, especially the former, a progressive firm must have foreign buyers.

Cotton, for instance, grows not only in the sunny south, but in Egypt and India as well. For a large manufacturing firm of cotton products to buy without first consulting foreign qualities and prices would indeed be poor policy. Foreign buyers must, however, have been domestic buyers first for they must have a thorough knowledge of the offerings of the domestic market if they are to buy shrewdly in foreign lands.

As a rule buyers are usually promoted to the desirable position only after years of buying service in this country. In choosing buyers from applicants you do well to pursue the same tactics as those we described in Part I, Chapter II, and the form shown there may also be of service to you.

Some other Buying Departments. The Tracing Department. After the organization of the buying staff comes the installation of a *tracing department*. The purpose of the tracing department is, as its name indicates, to trace orders that have been placed by the

buyers from the moment that the goods are bought until they arrive.

Keeping absolute track of orders must be done because, as we have explained before, the firm must know the exact date of arrival of a consignment for the course the goods take through shipping channels is devious and extremely uncertain.

The Receiving Department. When the goods are received they must pass into the hands of a *receiving department*. The purpose of this department is to check up the goods received and see that they tally with the original order and with the invoice. Now this department and the two to follow are not really a part of the buying machine, for when the buyer has placed his order and the goods have been delivered, his work and the work of his department is done.

But as these other departments, which are needful adjuncts of every well organized business, are more nearly a part of the buying machine than any other branch, we will describe them under this heading. When the goods reach the factory or store there are three things that must be looked after and these

are (1) that they are received properly; (2) that they are distributed right and put to the proper use; and (3) that payment for them is made when it falls due.

The Distributing Department. When the goods have passed through the receiving department they are taken over by the distributing department, and, as its name shows, this department has charge of the distribution of goods to the various manufacturing or selling departments where they are needed.

The Accounting Department. And finally the accounting department must take over the bill for the consignment and attend to the payment for it. If the goods are not paid for promptly it puts the buyer in wrong and he will have a harder row to hoe in making such good terms the next time he buys.

Failure to pay promptly also weakens the firm's credit and makes close buying just that much harder. We cannot give you a detailed description here of the organization of each of these departments but we will give you somewhat of an idea of how they work from the system which is used by them.

About System in Buying. There must be

system in business to reduce the friction and keep the working parts of the machinery running smoothly. In buying it is just as important to have a system upon which the buying organization operates as it is in selling.

This system consists of a series of filing cards each of which contains certain constituent information of value to the department in its buying operations. Without such a system it is impossible for the head buyer to know just when, and in what amounts, materials and products are needed, where they can be bought, and what their market prices are.

What a Good Buying System Consists of.

The first requirement of a good buying system is a method by which it can be determined just *when* the buyer must buy and *what* he must buy.

The most satisfactory way of doing this is by means of what is known as the *perpetual inventory*. In large firms where the sales of a day may clear out a complete line of stock, such as department stores, the perpetual inventory is taken daily and turned over to the head buyer as a source of buying informa-

tion. The smaller the business the less often need the perpetual inventory be taken.

Information through the Perpetual Inventory. The chief points of information that must be contained in a perpetual inventory are as follows: (1) the name and grade, or quality of the goods or material; (2) its stock number; (3) the normal maximum and minimum quantities kept in stock; (4) the dates when goods or materials were ordered, received, and disbursed, and in what quantities; (5) a balance of the data shown in No. 4; (6) the firm the goods or materials were purchased of and their last quotation or price on the same. A form of this kind is shown in Fig. 19 and it enables the buyer to keep a constant grip on the needs of his firm.

The next requisite for the buyer is a file which shows the following things about the goods or materials he must buy, viz.: (1) the name, grade, and stock number of the goods; (2) firms by whom the goods are sold; (3) quotations or prices; and (4) where the last order was placed and price it was bought at.

All of this information will be contained on

[illegible]

FIG. 19—A SOURCE OF BUYING INFORMATION—THE PERPETUAL INVENTORY

two cards as shown in Figs. 20 and 21. The object of splitting up the information and duplicating it in this way, or *cross referencing* as it is called, is so that (1) knowing what article is needed the buyer can immediately find from his files the names of its suppliers, and (2) by knowing the names of its suppliers he can get all of the information *re* its price and the terms it can be bought on.

A further advantage of Form 2 is that catalogues, price lists, and circulars from firms of their offerings can be filed in pockets containing numbers and can be quickly found. Finally Form 3 should have on its reverse side information as to previous orders placed with firms for (a) the goods; (b) prices; (c) quantities ordered; and (d) satisfactory shipment; and this is shown in Fig. 21.

System Used in the Tracing and Placing Department. So that constant track can be kept of the goods from the moment they are ordered until they are received by the receiving clerk the following system is used:

The buyer orders by means of a blank which is made out in *triplicate*, that is on three separate sheets of paper. When these three

blanks have been filled in, the buyer sends the original to the firm that is going to fill the order, he files one of the carbon copies for his own use, and the other he will forward to the receiving clerk.

The purpose of sending this copy to the receiving clerk is so that the latter can make room and be prepared to receive the goods when they arrive. This process constitutes the first step in buying, that is, in placing the order. This done, the next thing on the list is tracing the order.

How the Order is Kept Track of. When the buyer has sent the original slip out he figures that it will take a couple of days for it to reach the firm, a day for the firm to ascertain whether they can fill it, and a couple of days more for him to get a reply, or five days altogether, the time, of course, depending on the distance to be covered.

What a Tickler File is. Now the buyer has what is known as a *tickler file*, and this consists of filing envelopes large enough to hold correspondence written on business letter-heads, and to which tab fasteners are attached which have the dates of the month printed on them.

CROSS - INDEX

NAME AND GRADE OF ARTICLE		STOCK N°
SUPPLIERS		
NAME	ADDRESS	PHONE N°

Form 1

NAME OF FIRM		PHONE N°
ADDRESS		
NATURE OF BUSINESS		
DATE	CATALOGUE OF LISTS	FILE N°

Form 2

FIG. 20—CARD INFORMATION FOR BUYERS

NAME AND GRADE OF ARTICLE		STOCK N°				
DATE	N°	SUPPLIER	QUANTITY	REC'D	PRICE	REMARKS

Form 3

FIG. 21—BUYING INFORMATION CARD

All duplicates of orders and correspondence are filed in these envelopes, which have in the upper corner a firm's name, and these are arranged alphabetically according to the names of the firms they are placed with. These envelopes are filed in a filing cabinet which contain drawers large enough to accommodate them and the file is *kept alive*, which means that as soon as an order has been satisfactorily filled the correspondence is removed and filed elsewhere.

The buyer consults this tickler file every day in order to see just where his buying activities stand. When the buyer places an order he puts his letter and the duplicate order blank in a filing envelope and sticks a tab on the envelope which bears a date five days in advance of the present date.

Then he has it filed in the tickler file. The filing clerk runs through this file every morning, takes out the envelopes with the tabs on them bearing the date of that particular day, and hands them to the buyer. In this way an order placed five days before is brought automatically to the buyer's notice on the day

an acknowledgment is due if he has not already received a previous reply.

If he has received a reply before the case is brought to his notice he will then, of course, be able to handle the order faster. When he receives his first reply, which will probably also give him the date the shipment can be expected, he again sets his correspondence envelope forward in the file to that date and notifies the receiving clerk to be ready to receive the goods on that date, by means of the order in triplicate.

When the date finally arrives on which the goods are due, the buyer is again automatically confronted by the fact.

If the shipment fails to show up he gets the wires busy to find out why. When finally the goods are delivered he makes a memorandum on the back of the duplicate order that they were delayed, for future reference, and adds any other data of a like nature which may aid him in placing his next order.

How the Shipment is Checked up. When the receiving clerk receives the goods he carefully checks them up, writes his tally on his

triplicate order, and signs and then returns it to the buyer for his O. K.

The buyer compares this tally with the invoice sent with the order to see that the shipment is correct in all respects. Also if any goods were damaged either before, or through, shipping, the receiving clerk notes this on the triplicate and the buyer is able to present a claim to the responsible party.

Next the goods are turned over to the stock department for proper distribution throughout the factory or store and the buyer turns over the receiving clerk's O. K.'d copy of the order to the accounting department for payment.

It will be found that this system is not only invaluable to the buying organization of your business but that it fits well into any department where considerable correspondence is used, and you will find the tickler file especially useful in your sales, credit extension, and collection departments.

CHAPTER III

WHERE TO BUY

Coöperative and Chain Methods

What Coöperative Buying Is—Coöperation for the Buyer—
The Bush Terminal Sales Building—What Chain Buying is.

IN the past ten years a radical change has taken place in the business world. The scheme of brutal and destructive competition which was the former basis of business has given way to enlightened and constructive coöperation and it is because of this newer and better policy that business has forged ahead by leaps and bounds in so short a time.

To be highly successful you must know about this movement and must strive to keep up with it. Now whereas competition between merchants was formerly thought to be a serious handicap to the individual it has been found to be a business builder of no mean power. In the chapter on credit information which follows you will see some of the more

specific advantages that accrue from coöperation between merchants.

Generally, coöperation between merchants will do two things, depending on the use to which it is put, and these are: (1) to lower the cost of merchandising and, hence, the price of the article to the consumer, or (2) to force sales control which, therefore, increases the price to the consumer.

As a rule it will be found in coöperative merchandising that both of these increments are used as a wedge to force larger profits. The first point has to do with increased merchandising efficiency while the second is concerned more particularly with economic conditions. Further while the first has to do with the buying operations of the merchant, the second has to do only with his selling operations. It is, however, the first point that we are chiefly concerned with here.

What Coöperative Buying is. As an example of coöperative buying here is a simple little word-picture from life which not only illustrates the principles involved but also the advantages that accrue from it.

A bright young salesman who wanted to

increase his capital hit upon the following live scheme. He organized a company the purpose of which was to distribute groceries to retailers on a profit-sharing or coöperative basis. The par value of the stock in his company was \$40.00 a share.

Next he found a wholesale grocery concern that agreed to sell him at a lower rate because by so doing it was able to eliminate in so far as his customers were concerned a large selling force and hence to lower the selling cost of the groceries. This done he went to a large number of retail grocers to whom he put up the following proposition. They were to place their orders for groceries through him and this they were quite willing to do for it enabled them to buy cheaper.

He also proposed that they buy stock in his company at \$60.00 a share and in this way they became members of the concern from which they bought. In other words they would be buying from themselves and would consequently split the profits which the company made between themselves.

The extra \$20 a share above par which the stock brought was for the maintenance of

the coöperative concern while it was getting on its feet. Obviously the more members such a concern had, namely, the more stockholders, the greater the advantages each individual grocer received. The result of it was that he had no difficulty in disposing of the entire issue of stock and he prospered and so did the retail grocers.

It was not long, however, before other wholesale grocers began to *knock* the game to the retailers and, naturally, a few of them wrote in and complained. To these foolish ones the young man promptly returned their money together with a letter showing them how the concern was saving them money. Finding he was willing to return their money, almost without exception they sent it to him again.

His scheme was a success because it was formed on the right coöperative basis. The reason it had not been done before was simply because of the inertia that had to be overcome in order to get it under way.

Briefly, the coöperative plan enabled the members of the organization to do the following things: (1) to *buy cheaper* than merchants who were not members of the organization;

(2) to *share in the profits* of the concern selling the groceries to them; and (3) to *sell at a lower price* to the consumer if they were so minded and thus increase the volume of their business.

Coöperation for the Buyer. We have already given you the principles of expert buying and shown you how to organize a good buying force. In fact we have told you everything except where to buy. Now there are two chief ways in which the merchant buys his goods and these are: (1) from manufacturers' and jobbers' salesmen who go to see him, and (2) through his buyers whom he sends to the big cities.

Manufacturing and jobbing salesmen are always traveling throughout the country and call on you in the course of their journeys, or letters sent out to manufacturers or jobbers stating your needs will bring a raft of salesmen and samples. Buying done in this fashion is very easy but it is by no means the best way, for you are limited in your selection of stock to the materials brought to you.

The progressive retailer operates a little differently for he sends his buyers to the big cities where are located the biggest manu-

facturers and jobbers in all lines. Once there, the buyer looks around the city until he feels that he has seen everything that is worthwhile in his line and then he make his selection.

In this way the buyer is able to buy to a much better advantage than he can from traveling salesmen, for it is easy to make a comparative selection that is limited only in its scope by the time, money, and energy he has at his disposal.

But there are drawbacks even to this method of buying and chief among them are: (1) the manufacturers are not centralized and hence much time and energy is wasted by the buyer in gaining a superficial knowledge of what the market affords, and (2) because of this lack of centralization the exact comparative values of the articles the buyer looks at are likely to be lost and this again is a hindrance to good buying.

Obviously what is needed and must be had in order to buy expertly is some kind of a highly centralized, nay, concentrated, mart in which the comparative samples are displayed so that the latter will be under the buyer's

eyes all at once and without his having to chase from one end of the town to the other. See Fig. 22.

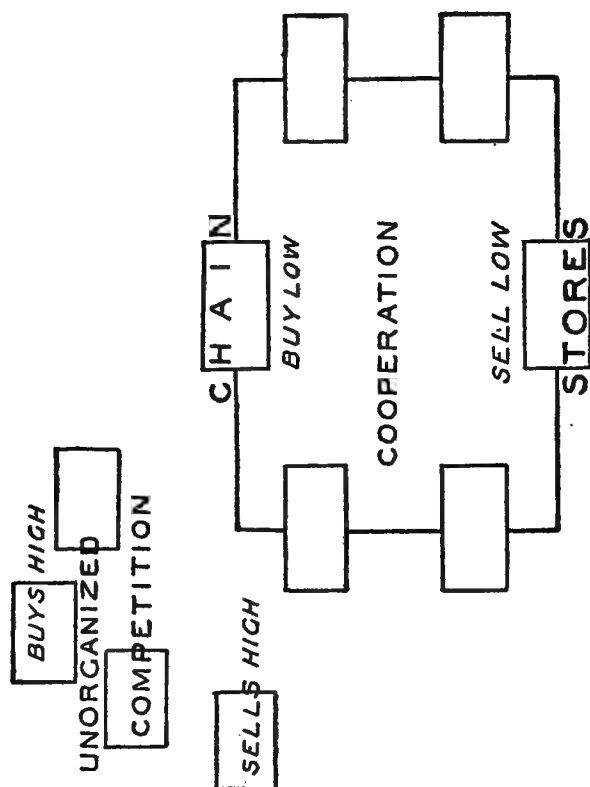


FIG. 22—WHY CHAIN STORES ARE SUCCESSFUL

The Bush Terminal Sales Building. This great edifice, which is twenty-eight stories high, is a veritable merchandising paradise

for the manufacturer, jobber, wholesaler, retailer, and last, but greatest of all, the buyer. It is located in the central part of New York City.

On the first two floors are located the *International Buyers Club*, grill room, and library. All buyers automatically become members of this club and there are no dues or fees. Its object is to provide a luxurious and restful place for the buyer to transact his business and do his work in.

The library is one of the most unique in the world and the most complete of its kind. You will find in it every trade paper, merchandising books, offerings, price lists, a foundation library of fashions, and the developments of dress both for men and women from the last tick of the watch back to the fourth century A.D.—an invaluable aid to the designer and buyer of apparel and a statistic service that will give him ideas of advertising, financing, buying, and selling that are worth their weight in platinum.

There is also in the library a card-file which gives a complete and up-to-minute description of all the lines of goods displayed in the

building. This service gives the buyer an airplane view of the market in tabloid doses that he cannot get in any other way. Through these sources of information the buyer can buy easier and better than by any other plan.

Above the Club are twenty-four floors of display booths and rooms containing the largest assortment of varied merchandise offerings ever gathered under one roof.

These booths and rooms are rented by manufacturers, jobbers, and wholesalers to display their wares in. These rooms are outfitted in the latest approved methods with display cases and furnishes high-grade salesmen to take charge of them.

This plan is not only a boon to the manufacturer or jobbers, as the coöperative plan lowers sales costs to a minimum, but to the buyer as well, for it places a half dozen competitive articles under his gaze at one time with the result that his comparative selection is bound to be the best. In fact the whole secret of this kind of organization can be summed up in two words, namely *coöperative service*.

What Chain Buying is. There is still another device used by the successful merchant

which cuts down his merchandising costs and enables him to sell more cheaply. This is the chain-store plan. As the name indicates it consists of a chain, or series, of stores all under one ownership, which may be individual, partnership, or corporation.

In this plan there is the additional advantage in that there is no competition of any kind between the stores. It is an old saying that "competition is the life of business." Not so, for the chain stores have proved to be highly successful and this is a case where co-operation only exists. First-rate examples of chain stores are the Liggett Drug Stores, United Cigar Stores, and the Butler Grocery Stores.

The following advantages are obtained where chain stores are run, namely: (1) they permit of quantity buying and hence cheap buying; (2) the returns on large quantities of merchandise so purchased are almost instantaneous because of the large capacity of the chain of stores for distribution to the consumer. In other words the turn-over of capital is quick and hence the business is always kept a live issue.

Possibly by considering these modern plans of merchandising, which enable the operations of buying and selling to be conducted so much more profitably, you will see how you can apply them to your business.

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Part III

Commercial Confidence

CHAPTER I

CREDIT AND YOUR BUSINESS

Confidence in Days of Yore—In the Stone Age—The Barbaric Norsemen—The Hudson Bay Company—What Credit Is—Various Kinds of Credit—About Personal Credit—What Retailer Credit Is—On Manufacturer Credit—Bank Account Crediting—Why a Credit Organization is Needed—What the Credit Department Does.

IN the natural course of events you will find that the keystone of all business transactions is *confidence*, and without this dominating factor business cannot be conducted, for at some stage or other it becomes necessary for one party to trust the other.

Confidence in Days of Yore. In days of yore when might was right and the stone-age man held sway he clubbed his neighbor half to death and relieved him of whatever it was he wanted, hence, quite naturally, confidence was an unknown quantity.

A few thousands of years later when the barbaric Norsemen gathered to barter, the bargain was sealed by the ceremony of drink-

ing from what we are now pleased to call a *loving cup*. But so great was the lack of confidence even in these days that the cup was provided with three handles to one of which the drinker held. Before he drank however he



FIG. 23—THE LOVING CUP AS AN AID TO BIG BUSINESS

insisted that his supposed friend and business associate grasp the other two handles of the cup to the end that the latter might not stick him between the third and fourth ribs and take his due from him. The idea is represented in Fig. 23.

Certainly under such untoward conditions

the art of doing business could not be expected to thrive overmuch. But as the centuries rolled on the confidence of men in one another grew stronger and ever stronger, especially in matters pertaining to business, chiefly because laws were laid down to prevent and punishments meted out to those who were guilty of business treachery.

Even in the early history of the North American continent a large amount of confidence had manifested itself between the pale face and the poor Indian and, strangely enough, it was rarely abused. In the frozen North the Hudson Bay Company which traded in furs depended on the red men for their catches. At certain advantageous points the company located its factories, as the trading posts were called.

At these posts any Indian who had not been proved to be a thief would be *staked* to an outfit of a hundred dollars' worth of provisions; that is he would get it on tick, jawbone, or *credit* as it is called to-day, so that he might penetrate into the wilds and trap for the company. At the end of six months the *honest Injun* would return with his catch and liqui-

date his debt. This confidence between the pale face and the red man is pictured in Fig. 24.

The *factory* was in charge of a *factor*—hence its name—and it was he who judged the In-

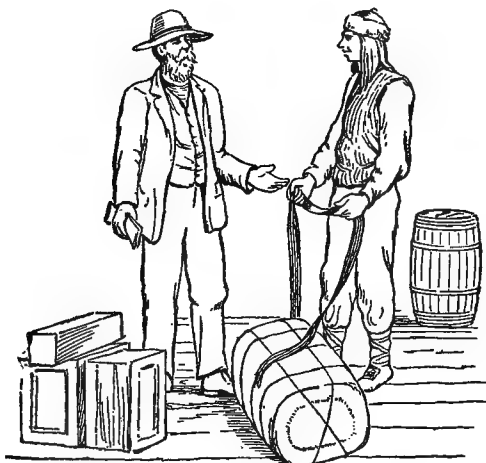


FIG. 24—CONFIDENCE BETWEEN WHITE MAN AND SAVAGE

dian's honesty and just how much credit he could *safely* let him have. By extending this credit to the savage he enabled the latter to carry on his *business*, which was that of trapping, the only consideration being that he sell his catch of furs to the factory or company.

Thus the factor of the Hudson Bay's trading post was the original counterpart of the factor

who advances credit in modern business transactions so that the debtor can carry on his business, and, of course, the former exacts a commission in return for this service.

What Credit Is. From this little historical sketch you will gather that *credit* is simply *business confidence*. There are certain things, though, that the advancing of credit does which you should know about in order to have a clear conception of the nature of this kind of a trust.

The first and most obvious thing that credit does is to lessen the value of money. As an illustration of this point let's take a community in which credit is taboo. To be able to buy in such a community you must have the ready cash. This, of course, means that there must be more actual currency, that is money, in circulation in this community than in one where credit is liberally extended.

It follows, then, that the greater the need is for actual cash the greater value it has, that is to say, the greater is its purchasing power. In communities where credit is liberally extended the need for cash is less and consequently the power of money is less. From these

facts an extremely simple and self-evident axiom can be formulated, viz., to *make your money buy the most, buy with cash.*

And since it is a poor rule that doesn't work both ways, here is a corollary that has been recognized and heeded by merchants all over the world ever since business was invented, viz., to *make your goods bring the highest prices sell on credit.* Man's greatest weakness in buying is credit, for buying goods on trust blinds him to the defects and real values of them and it is one of the greatest selling arguments ever used.

On the other hand it must be cleverly handled by the merchant or it will prove to be a Little Old Man of the Sea and finally strangle him to death. The purpose of this chapter is to give you an insight into the nature and operation of credit that will enable you to employ it successfully on both the buying and selling ends of your business.

Except when properly handled credit is a detriment, instead of a boon, not only to the debtor but to the creditor as well, as you will presently see. In spite of the dangers that attend it there are reasons for its use

which make it at times a legitimate necessity.

Why Credit Is Necessary. There are several reasons why the propagation of credit is a good thing and these are (1) it enables the consumer to buy the necessities of life during such time as he is waiting for his pay envelope. At some stage or other the consumer through needful but unexpected expense may get behind in his ability to pay.

More often though it is through his extravagance or mismanagement that this happens. The credit extended to him by his local merchants enables him to live and catch up where otherwise he would have to starve and so incite him to steal, or to start a revolution. Credit is not only a good thing for the consumer therefore but it helps to balance things and keep the poorer population from social unrest.

It also works for the good of the merchant for should he refuse credit to a customer when he needs it, he will not only lose his customer's trade during the period in which he is hard-pressed but what is worse, he will lose it for all time. A customer who is once refused credit when he actually needs it will naturally

trade elsewhere when his finances pick up again.

(2) In virtue of the fact that he must extend credit to the consumer the merchant is often placed in a position where his outstanding debts force him to seek credit himself so that he can carry on.

Again, and this is good for him, credit enables him to buy advantageously because he can lay in a stock of merchandise before the season opens for its sale. In this case he does not need to make the large outlay of money that he would have to if he waited to buy until the season opens and he actually starts to realize on the sale of his stock.

Since he is selling in a highly competitive market he must sell for smaller profits; for this reason he must work on a closer margin and turn his capital over oftener if he is to keep his head above water, and credit permits him to do this.

(3) By using credit he can carry on his business even though he does not have the ready capital at the time and this without endangering his independence; and this is true not only of the merchant but of the wholesaler, jobber,

and manufacturer as well. Without credit there would come a time when these organizations would be financially crippled if indeed they could exist at all.

(4) The final advantage of credit is that it is a more convenient means of payment where large sums of money are involved, in many cases, than the actual currency itself would be.

Especially is this true where long distances are concerned. Further since it is a means of payment it can be used to supplant or take the place of currency to a certain extent. Just how this pleasing operation is effected you will presently see. But to understand this you must know something of the various kinds of credit that are utilized in the business world.

Various Kinds of Credit. Now there are many different ways and means by which credit is extended but all of them can be resolved down to a couple of basic classes and these are (1) *short time credit* and (2) *long time credit*.

Short time credit, as its name implies, ranges from the ordinary *sight draft*, or *demand note* which is to be paid upon sight, or demand, to the longer thirty-day *promissory note*, that is,

a note which states that you merely promise to pay thirty days hence.

Another means by which credit is gained is by making payment with a *city draft* drawn on a neighboring city bank and to which the draft must be sent in order to have it cashed. Thus if Brown gives Jones a draft on Boston, both being in New York, by the time the latter deposits it in his bank, it is sent to Boston for collection, payment is made there and returned to Jones's bank in New York, six days have elapsed, Sunday being a holiday makes seven, and then the law allows three days' grace, making in all ten days' credit for Brown, who doesn't even have to ask Jones for it.

Long-time credit runs anywhere from thirty days on up to infinity. Credit of this kind is, however, seldom extended over a longer period than six months for the three following good reasons, namely, (1) if the debtor is still unable to pay after such a long time the chances are he will never be able to do so, and you must bear in mind that the longer time you grant credit for, the greater the risk you are taking with your money. (2) The longer the time that elapses, the harder it is for the credi-

tor to determine future events, that is what is likely to happen. (3) And, finally, it is necessary for the creditor to turn his capital over just as often as it is for the debtor in order to keep afloat. To extend credit over a period longer than six months is generally unwise unless there is ample security to back it up.

The two above classes of credit can be further divided into four distinct kinds and these are (a) personal credit, (b) retailer's credit, (c) manufacturer's credit, and (d) book account credit.

About Personal Credit. Under this heading falls every kind of credit that is given the individual on his *personal security*. The greatest of all personal credit businesses is the extension of credit to the consumer by the merchant.

There are numerous and divers means by which this is done and they range anywhere from the unwritten and usually unspoken, *i. e.*, tacit, agreement that the housewife makes with the butcher, the baker and candlestick maker to the more formal and hard and fast agreement with the installment house.

As we have pointed out before, credit is a

mighty good thing, *per se*, for both the consumer and the merchant when it is handled judiciously. Unfortunately its advantages are too often offset by the abuse of both the merchant and the consumer. Since man's greatest weakness is buying on credit, the consumer, if permitted, will very often run himself into unredeemable debt.

We say *unredeemable debt* because of the fact that all too frequently the merchant allows the consumer to buy far beyond his credit value either because (a) he is carried away on the tide of the big business he thinks he is doing or (b) he is fearful that if he does not keep on extending credit he will offend the customer and lose his trade and the chance of collecting what is already due him, in which case he is between the devil and the deep blue sea.

But sooner or later the tide reverses its direction, low ebb takes place and a day of reckoning is at hand for both. The consumer is unable to liquidate his debts and such payment as he does make usually leaves him stranded. The merchant's business then begins to feel the effects of his poor credit policy for his books show nothing but a balance of

bad debts. He in turn finds it hard if not indeed impossible to get the credit he needs to tide him over.

In this way a center of financial depression is formed in the wheel of the business and as it grows larger it works nearer and nearer the rim until it overbalances it. To counteract this untoward result the merchant must needs *boost* his prices and in the finality of things mundane it is the consumer upon whom the full burden of this folly falls.

What Retailer Credit Is. In this chapter we have been using the term merchant to mean the *retailer* and we have now come to the granting of credit to the retailer, or merchant, by the manufacturer, jobber, or wholesaler.

The retailer, as we have previously pointed out, can seldom afford to buy very far in advance of the time when he can sell to the consumer unless some special inducement is made him and the one that appeals to him the strongest is credit.

The plan most commonly used for granting the retailer credit is that known as *advance dating*. In this plan the bill of sale is dated from 30 to 60 days in advance of the actual

date of shipping, and 2% is discounted, that is, *knocked off* of the total amount of the bill if payment is made within 10 days' time from the date of sale.

This gives the retailer ample time to receive his goods, prepare his displays, and start his actual selling campaign before the payment falls due. On the other hand he has the privilege of raising the money and paying the bill within ten days and in the event of his doing so he gets the benefit of the 2% discount, and where a bill runs into hundreds or thousands of dollars this discount is not to be ignored.

From this you will gather that credit must be paid for and that the retailer is not exempt from such payment. But 2% is in reality a very small percentage to pay for credit for there are many other kinds of credit in which the payment exceeds 10% as you presently see.

The advantage of the retailer credit plan is that it enables the manufacturer or jobber to sell to the merchant without delay, and likewise, it enables the merchant to lay in a season's stock and prepare it for sale without the initial outlay of a large sum of money which might

tend at the time to cripple his activities in advertising and the sale of the goods. The jobber is extended credit in the same fashion or he gets it through other channels as you will also see further on.

Manufacturer Credit. It is often desirable for a manufacturer to have credit granted him by dealers in raw materials and machinery. This is done either through advanced dating as described above or through what is known as the *book account plan* which we will describe later on.

As an example of the desirability of credit to the manufacturer let's take a newly organized firm starting in to manufacture an automobile accessory. Without credit it would be necessary for the firm to have on hand an enormous amount of cash with which to buy raw materials, machinery, housing, and advertising. But by means of credit the firm can bring its business up to the point where it is able to turn its capital over quickly, and pay off its creditors quickly without embarrassment and all on a very small initial outlay.

Book Account Crediting. A kind of credit that is offered to substantial firms is known as

book account credit. The books of a firm show the nature and the amounts of the credits owed it, that is whether they are good or bad.

Now when the percentage of bad credits is small a firm can raise money on the strength of these book accounts through a commission house, brokerage firm, or factor,¹ and the procedure is as follows: The firm assigns its *book accounts* over to its creditor who allows it to withdraw a large percentage of the credits shown, usually from 75% to 90%.

The money is then advanced to the firm, minus 10% to 25% commission. The size of the commission charged depends on the risk the creditor is taking and this of course is based entirely upon the nature of the credits in the book account they are buying. In other words this is a case where the firm is not *borrowing money* but where it is *selling its credits*, i. e., uncollected accounts for cash at a large discount.

As you probably know, in many States it is illegal to loan money at a higher rate of interest than 6%. Any amount above this percentage becomes what is known as *usury*.

¹ Factors are now called *mercantile bankers*.

Since, however, the book account plan is not a loan plan but a buying plan it is not illegal in the eyes of the law though it is nevertheless a form of credit.

Banks hardly ever charge more than 6% on loans but in virtue of the speculative nature of book accounts they are prohibited from making loans on them. Of course there are times in the existence of a firm when it must obtain large sums of money in order to keep things going, and when these conditions arise a high rate of interest is a secondary consideration.

Why a Credit Organization is Needed. We have told you that the way to make your goods bring the highest prices is to sell them on credit, but at the same time we have shown you that unless your credit dealings are well systematized and organized you will more than likely come out at the little end of the horn.

Hence, to operate without loss, you must establish a credit department and to do this you must have a thorough knowledge of the functions of a credit department and its sources of information all of which is described in the following chapters.

What the Credit Department Does. The

chief functions of a credit department consist of three determining features, namely, (1) the ability of the applicant for credit to liquidate the debt when payment falls due, (2) the intention of the applicant for credit to liquidate the debt when payment falls due, and (3) the future conditions upon which the applicant's ability to liquidate his debt when payment falls due.

The estimate of the applicant's ability to liquidate his debt is based upon the security, collateral, or attachable property which is actually in his possession. This serves two purposes namely, (a) you can judge to some extent by the applicant's visible signs of prosperity whether he will be able to liquidate the debt when called upon, and (2) if the applicant has sufficient property or security, in case he fails to liquidate his debt either in full or in part, that can be realized through this source.

The estimate of the intention of the applicant is one of the most important determining features a credit department is called upon to make. When a debtor fails for any reason to liquidate it, it involves the expense of much

time and money to realize on the security and sometime this last chance of réalisation fails.

What you want to know then is that an applicant for credit is honest and firm in his intention and determination of liquidating his debt. In the determination of this factor a complete record of past performances in liquidating his debts, and of the reasons which make it necessary for him to seek credit are invaluable.

Clearly an applicant, who has failed to make good his credit in the past, or whose reasons for wanting credit seem questionable, nay fishy, is not to be trusted unless his security is of the highest order, and amply sufficient to cover the amount of credit which he is seeking.

And, finally, the determination of the future conditions upon which depend the applicant's ability to liquidate his debt must be taken into consideration. Very often a man, or a firm whose intentions are the best in the world is unable to make good the credit extended to him, because of the financial stringency that has been caused by some unforeseen turn of the wheel of fortune.

Evidently it would be poor policy to extend credit to an applicant if your credit depart-

ment has concluded that the applicant's securities are unsound or that he is liable to fail at any time for any one of a dozen reasons. All of these determinations are absolutely necessary before credit of any kind can be granted. But to safely extend credit you have got to delve deeper into certain points concerning the applicant, or his business, or both.

When you grant credit you must not only know the liability but the reliability of the applicant, also the amount of business he has done, the status of his book accounts, outstanding debts, suits, etc., the ability of the heads of the firm to cut down expenses, the rapidity of turn-over and all the other little pro and con points.

In Chapter III, Part III, you will learn exactly how to obtain all of this inside information and just how your credit department makes use of it in analyzing the desirability of granting credit to an applicant. "Nearly all is brass that glitters" and this is especially true in the business world; consequently you must have an active and intelligent credit department if your firm is to conduct a credit business and still make a profit.

CHAPTER II

INSIDE CREDIT INFORMATION

The A. B. C. of Credit Information—How Credit Information is Obtained—The Direct Method—Credit Reporters—Property Statement Blanks—In the Indirect Method—The Salesman as a Credit Sleuth—Credit Information through Lawyers—The Record Searcher—Newspaper Clippings—Credit Information from Banks—Credit Information from Other Firms—Credit Information Agencies—Coöperative Credit Organizations—National Association of Credit Men—Collection Bureau—Legal Bureau—Adjustment Bureau—The Analysis of a Credit Statement.

As you know the three chief functions of a credit department are to (1) collect credit information, (2) systematize the information thus collected, and (3) discover by means of the collected data what individuals, firms, companies, and corporations are and are not good credit risks.

Not only must a credit department collect such information at the time it receives an application for credit but it must get hold of a large and varied assortment of such information as will come in handy for quick reference

in the future. Nothing is too small, or too large, for the credit department to gather into its information files that has any bearing on credit relations of the past, present, or future.

The credit department of a firm can be likened to a detective bureau but it operates for the prevention and discovery of credit crime; like the detective bureau the information obtained by the credit sleuth must be carefully assimilated and classified by the master mind of the credit man so that from it he can deduce his conclusions correctly.

The A. B. C. of Credit Information. To be of value credit information must first of all be intelligent, that is it must contain certain information that is at once definite as well as truthful.

Now the A. B. C. of credit information is *assets, business, and character*. With complete and reliable information concerning these three fundamental points the credit man can build up a credit system of unfailing accuracy. Included in the information on assets there must be a complete statement of the applicant's financial standing which, of course, includes his liabilities as well.

The information on business contains data on the capacity of the firm or house, that is, whether or not it is a going concern. Character information is based on the moral character and responsibility of the individual or firm applying for credit and is of course based on past performances.

How Credit Information is Obtained. There are two chief ways in which credit information is obtained and these are (1) the direct method, and (2) the indirect method.

Again there are two principal sources through which the credit department can obtain this information, namely (a) through the efforts of its own staff, and (b) through some outside agency from which the information is bought, or exchanged, as the case may be.

For the present, however, we will consider the ways of obtaining credit information and these are the same no matter what the source may be.

The Direct Method. There are, however, two schemes for obtaining direct credit information, that is to say, information gained directly from the applicant for credit and these are by (1) what are known as *credit reporters*,

and (2) what are called *property statement blanks*.

Credit reporters, who belong to the firm that is asked to extend credit, go the rounds and personally interview the applicant for credit. This is a fairly reliable means of obtaining credit reports for the applicant can be interviewed in his natural environment, *i. e.*, his home, store, or factory surroundings.

In this case the reporter can draw his conclusions from the condition of this environment that are more or less enlightening to the credit man. Suppose by way of illustration that your reporter interviews an applicant for credit in his store. The applicant states that he has a going concern and that his business is rapidly increasing.

The reporter, on the other hand, sees every sign of inactivity, poor organization, and but little system. These observations noted on the report enable the credit man to discount the applicant's statement and he takes it at its true and not at its face value.

In granting the consumer credit his home can generally be taken as a fair indication as to his stability and credit worthiness. For

instance a man whose income is known to be small but who lives in a palace can be taken usually as running his credit far and wide in order to do so. In a word he is unreliable.

Thus in a thousand and one ways it is possible for the reporter to observe things that agree or disagree with the applicant's statements and which in consequence either bear him out or give him the lie direct.

The second means of obtaining a direct report on the applicant's eligibility for credit is the property statement blanks and this is sent to the applicant to be filled out by him. These blanks can be bought from dealers in business stationery or from loose leaf manufacturers, and is the standard form adopted and recommended by the *National Association of Credit Men*.

As this blank is reproduced in Fig. 25, it is not necessary to go into a detailed description of it, suffice it to say that when it is accurately filled in it provides a source of credit information from which the credit man can pretty closely determine the reliability of the applicant.

In the use of these statements, however, there

are a couple of things that must be taken into consideration. The first is the wilful misrepresentation of facts by the applicant, and the second is the unintentional misrepresentation of facts by him.

Wilful misrepresentation is the least frequent of the two, for the credit shark, who was formerly addicted to this vicious habit, has had his teeth pulled by the legislation of a law which penalizes the act of giving false written statements in order to obtain credit. This being true the credit shark never knows when he is going to be picked up for this offence and prosecuted.

Unintentional misrepresentation is of common occurrence. It happens where the methods and systems, if there are any, in use by the applicant are so antiquated or lax, or both, that even if he is a church member, it is quite impossible for him to make an accurate statement. Moreover, this is the cause that usually lies behind his application for credit.

You will find on careful investigation that such an applicant wants far more credit than he is entitled to and hence, when such misrepresentation is found to have been made, it is not

ADOPTED AND RECOMMENDED BY THE NATIONAL ASSOCIATION OF CREDIT MEN

ASSETS		Dollars	Cents	LIABILITIES		Dollars	Cents
Cash on hand _____				OWING FOR MERCHANDISE			
				On open account not due _____			
Cash in bank _____				On open account past due _____			
ACCOUNTS owing from customers				On notes and acceptances payable _____			
collectible _____				OWING FOR BORROWED MONEY			
NOTES owing from customers				To bank _____			
collectible _____				To others _____			
Merchandise, (How valued: Cost or Market) _____				Owing for rental _____			
Fixtures and equipment _____				Owing for wages and salaries _____			
Land and buildings as				Owing for taxes _____			
described below _____				Owing on land and buildings _____			
Owing from members of firm,				Other debts to relatives and others _____			
employees and others not customers _____							
Other Assets _____							
Total Assets				Total Liabilities			

RECORD OF SALES AND ACQUISITIONS						
TITLE IN NAME OF	DESCRIPTION AND LOCATION	Book Value		Assessed Value	AMOUNT OF ENCUMBRANCE	To Whom

On Merchandise _____ For Employers' Liability _____
On Buildings _____ Is any Insurance assigned? _____
On Furniture and Equipment _____ If so, to whom? _____

prudent to grant credit at all unless it is on readily convertible security.

The first thing that the credit man must see before granting credit to an applicant, whether individual, firm, company, or a corporation, is the *balance sheet* and this should be *certified* by a *public accountant* so that you will know it is correct. From the balance sheet the credit man will be able together with such other information as he has on hand to make an accurate analysis of the firm's credit reliability.

A condensed balance sheet of the *General Motors Corporation* for 1918 is reproduced in Fig. 26, and you can see the kind of information that it contains and this is typical of all balance sheets. Now while we are assuming in this chapter that you are the man who is extending the credits you will do well to heed all of the points which we have set forth when you seek credit yourself.

You must agree that if you have the right to know on what basis other firms are asking you for credit, they have the same right, when the tables are turned and you are the applicant, to know yours. When they are furnishing you with capital for a given period to do business

ASSETS

December 31, 1918

Permanent Investment:

Real estate, plants and equipment	-	-	-	\$ 86,818,414.51
Less: reserve for depreciation	-	-	-	10,061,983.38
				<u>\$ 76,756,431.13</u>

Investments in allied and accessories companies	-	-		<u>2,839,531.23</u>
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Current and Working Assets:

Cash in banks and on hand	-	-	-	30,636,621.48
Liberty Bonds	-	-	-	28,852,018.00
Marketable securities	-	-	-	172,304.86
Sight drafts against B/L attached	-	-	-	3,316,384.90
Due from U. S. Government on war contracts				7,305,626.76
Notes (\$1,285,908.01 in 1918) and accounts receivable	-	-	-	21,995,359.50
Inventories at cost or less	-	-	-	<u>91,137,512.59</u>
Total Current and Working Assets	-	-	-	<u>\$183,415,828.09</u>

Deferred expenses	-	-	-	<u>762,651.85</u>
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Good-will, patents, copyrights, etc.	-	-	-	<u>35,714,893.43</u>
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Total	-	-	-	<u>\$299,489,335.73</u>
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LIABILITIES

Capital Stock:

Debtenture stock (authorized \$150,000,000) issued	\$ 30,756,300.00
Less: in treasury of General Motors Corp.	<u>1,581,000.00</u>

In hands of public	<u>\$ 29,175,300.00</u>
--------------------	-------------------------

Preferred stock (authorized \$20,000,000) issued	\$ 19,684,300.00
Less: in treasury of General Motors Corp.	<u>13,300.00</u>

In hands of public	<u>\$ 19,671,000.00</u>
--------------------	-------------------------

Common stock (authorized \$200,000,000) issued	\$151,301,100.00
Less: in treasury of General Motors Corp.	<u>3,921,200.00</u>

In hands of public	<u>\$147,379,900.00</u>
--------------------	-------------------------

Total in hands of public	<u>\$196,226,200.00</u>
--------------------------	-------------------------

Purchase Money Bonds	<u>225,000.00</u>
----------------------	-------------------

Outstanding Capital Stock (par value) and surplus of subsidiary companies, being portion not owned by General Motors Corp.:

Capital Stock	\$ 2,960,400.83
---------------	-----------------

Surplus	<u>427,754.20</u>
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Total	<u>\$ 3,388,155.03</u>
-------	------------------------

Current Liabilities:

Accounts payable	\$ 18,453,316.99
------------------	------------------

Notes payable	<u>10,802,154.11</u>
---------------	----------------------

Taxes, pay rolls, and sundries accrued not due	<u>3,769,865.29</u>
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Total Current Liabilities	<u>\$ 33,025,336.39</u>
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Reserves:

For two months' proportion of Dividend on Preferred and Debtenture stock, payable February 1	\$ 488,463.00
--	---------------

For Federal taxes and extraordinary expenditures	<u>25,863,823.23</u>
--	----------------------

For sundry contingencies	<u>3,863,420.65</u>
--------------------------	---------------------

Total	<u>\$ 30,215,706.88</u>
-------	-------------------------

Surplus	<u>36,408,937.43</u>
---------	----------------------

Total	<u>\$299,489,335.73</u>
-------	-------------------------

FIG. 26—ANNUAL STATEMENT OF THE GENERAL MOTORS CORPORATION

on, and for your profit as well as their own, they want to know what use you intend to make of it and that you will pay it back.

The Indirect Method of Getting Credit Information. As you have seen we used the term *direct method* to mean that the applicant himself knowingly supplies the credit information needed, and by the same token we use the term *indirect method* to mean that the applicant is unaware that credit information is being obtained.

There are in all six ways by which credit information is uncovered and these are important for one or more of them can be taken as a means of *verifying* the direct information obtained from the applicant. Named, these ways are (1) through salesmen, (2) through attorneys, (3) through record searchers, (4) through newspaper clippings, (5) through banks, and (6) through exchanges for credit information.

The Salesman as a Credit Sleuth. The salesman makes an excellent sleuth providing you have faith in his intelligence and integrity. Since it is impossible for the salesman to give a customer a direct interview relating to credit

conditions without interfering seriously with his selling activities, you provide him with

<i>CUSTOMER'S NAME</i>	<i>PHONE NO</i>
<i>ADDRESS</i>	
<i>SALESMAN'S NAME</i>	
<i>Appearance of Store</i>	
<i>Location " "</i>	
<i>Nature of Displays</i>	
<i>Class of Goods Carried</i>	
<i>Evidence of System</i>	
<i>Quantity of Business</i>	
<i>Local Advertising</i>	
<i>Character of Owner</i>	

FIG. 27—CONFIDENTIAL REPORT OF SALESMAN

cards on which to report such information as he may gain in an indirect manner and which consequently does not hurt his sales.

One form of these cards is shown in Fig. 27

and it is self-explanatory. The salesman fills out his card unknown to the customer and encloses it with his sales report card to the sales manager who in turn refers it to the credit manager.

This form is an admirable check on the direct statement made by the customer when he applies for credit but unfortunately it has two loopholes in it and these are (1) the information is rather superficial and insufficient, and (2) some salesmen have the bad habit of letting the customer fill in the card to gain his good will and get his big order. However, it is a scheme that serves to give the credit man a line on the customer, and further it is a means of obtaining credit information that comes in regularly and costs nothing.

Credit Information through Lawyers. A very good way to get credit information about an applicant is through an attorney who lives in his home town. This is especially so in the smaller towns, where an attorney has an opportunity of keeping his finger on the business pulse of the community.

He can give you reliable information as to the past and present market conditions and the activities of the applicant and he can make

a fairly accurate estimate of the future outlook of affairs. Also he is fitted to give reports on the legal aspects, including litigations of firms in his locality, and for such services his charges are only nominal.

The Record Searcher. Another valuable source of information at the disposal of the credit man is the court records of suits, attachments, infringements, bankruptcies, and incorporations. This kind of data is mighty good to use as a check on the direct statements made by applicants.

While this information can be had through the services of your special record searchers it is at the same time better to let the local attorney dig it up, for, as we have said before, he is peculiarly well fitted to present it to the credit man in a manner that will be of the greatest value to him.

Information Gained through Newspaper Clippings. A large amount of information on the financial and legal activities of applicants for credit can be had from newspaper clippings. The financial columns of newspapers contain daily accurate reports on market conditions in every field of merchandising.

Much definite information can also be obtained on credit accounts that the department is handling at the time or expects to handle in the future and this information can be clipped and filed for reference. A *press clipping bureau* will furnish the credit department with clippings at a low cost and this is better than a clipping service conducted by the credit department in that it clips from a far larger number of publications.

Credit Information from Banks. Credit information can also be obtained from banks and although this is an indirect means of getting it, still it has some of the disadvantages of the direct means. Where a bank does a large business with a firm it is apt to be more liberal in its credit estimates than a disinterested reporter would be. But bank reports are useful in conjunction with the reports from other sources.

Credit Information from Other Firms. Finally an excellent source of credit information is that of other firms with whom the applicant for credit has or has had dealings. From these sources it can be determined how much risk is taken in granting credit by securing a complete

record of his credit dealings in the past and studying it from this viewpoint.

Many firms and particularly those who are members of the National Association of Credit Men will swap information of this kind with you and we reproduce in Fig. 28 a blank for the purpose of exchanging such information which is the form approved of by the Association.

Credit Information Agencies. The sole business of *credit information agencies*, or *mercantile agencies* as they are called, is to provide firms that buy their services with information on applicants for credit. As a rule they are only employed where a firm has no credit organization of its own. In general the methods employed by mercantile agencies are those just enumerated for getting credit information.

The reports sent in by these agencies contain three important items of intelligence and these are (1) information gathered through ordinary channels on the credit responsibility of firms in general, (2) general deductions of the agency relating to markets and business fields of endeavor, and (3) special reports on specific firms applying for credit.

While the cost of this kind of agency service is far less than that of keeping up a credit de-

RETURN THIS TO US

19 MADISON AVENUE,

New York. _____ 191

Kindly give us below **YOUR EXPERIENCE** with

Name _____ Business _____

P. O. _____

From whom we have _____ order for \$ _____

(Indicate whether first order)

ALL INFORMATION WILL BE CONSIDERED STRICTLY CONFIDENTIAL

Yours truly,

APPROVED AND ADOPTED BY
NATIONAL ASSOCIATION OF CREDIT MEN

HOWLETT & HOOKMEYER CO.

To _____

Sold from _____ To _____		MANNER OF PAYMENT ANSWER—YES OR NO.
Terms _____		Discounts
Highest recent credit, _____		Prompt and satisfactory
Owing now { On open account, \$ _____		Slow but considered good
Not due { On notes, \$ _____		Slow and unsatisfactory
Owing now { On open account, \$ _____		Account secured
Past due { On notes, \$ _____		Notes secured
Other information _____		Notes paid at maturity
_____		Notes renewed in full
_____		Notes renewed in part
_____		Makes unjust claims
_____		Collected by attorney

FIG 28

partment of your own having the same scope, especially where the amount of credit business you do is comparatively small, at the same time

there are drawbacks in the use of these agencies where firms are doing a large credit business.

RETAIN THIS FOR YOUR FILES

19 MADISON AVENUE,
New York. _____ 191

We give you below OUR EXPERIENCE with

Name _____ Business _____

P. O. _____

From whom we have _____ order for \$ _____

(Indicate whether first order)

PLEASE CONSIDER INFORMATION STRICTLY CONFIDENTIAL

Yours truly,

APPROVED AND ADOPTED BY
NATIONAL ASSOCIATION OF CREDIT MEN

HOWLETT & HOOKMEYER CO.

To _____

Sold from _____ To _____		MANNER OF PAYMENT ANSWER—YES OR NO.
Terms _____		Discounts _____
Highest recent credit, .		Prompt and satisfactory _____
Owing now { On open account		Slow but considered good _____
Not due { On notes,		Slow and unsatisfactory _____
Owing now { On open account, \$ _____		Account secured _____
Past due { On notes, \$ _____		Notes secured _____
Other information _____		Notes paid at maturity _____
_____		Notes renewed in full _____
_____		Notes renewed in part _____
_____		Makes unjust claims _____
_____		Collected by attorney _____

FIG. 28

Chief among the latter are: (1) They are slow, (2) information is not always as full and exact as it ought to be, and (3) they are not

sufficiently organized. To obviate these difficulties a new and better system of supply credit information has come into use.

Coöperative Credit Organization. This recent and more intelligent scheme of service consists of *coöperative credit organizations*. These organizations had their origin in the clubbing together of the credit departments of a few firms for their mutual protection and welfare.

In its simplest form these organizations merely swap credit information and this enables the credit department of any one firm to get more intelligent service and at the same time get it quicker and cheaper. In its more recent development a central credit office is established for all members of the organization and full information concerning all the credits established is kept there where it can be obtained by the members from time to time as it is needed.

In its present form of organization this system has decided advantages over the mercantile agency for it places at the disposal of any of its members all of the transactions of the other members among themselves and also

with outsiders. This furnishes a very thorough means of determining credit reliability through past performances.

Moreover the pooled interests of such an organization make it possible for you to obtain credit information very much cheaper than can be done where an individual credit information department is used. The more members admitted to such an organization the greater the amount of credit information that is available and hence the less is the expense of the individual member in securing the information he wants.

It is simply another case of where coöperation makes for economy and hence for success, and this is all the more true where the members of a coöperative organization are hot competitors. It has been found that in modern business the old and small time policy of putting every stumbling-block possible in your competitor's way doesn't work.

The National Association of Credit Men. The best coöperative credit organization in the United States is the *National Association of Credit Men* which is located at 41 Park Row, New York City. As its name indicates its

scope is *national* and this makes it highly useful to its members.

Briefly stated its aim is the coöperation of every credit organization whether privately or coöperatively owned in the United States, and the building up of conscience and confidence in business. It has a rapidly growing membership of over 23,000 representative credit departments and all of these work in the interest and protection of their fellow members who comprise manufacturers, wholesalers, jobbers, and bankers.

A membership in the *National Association of Credit Men* brings to you all the coöperation and information on credit that the heads of the biggest credit men in this country can supply you with. Since the *Association* is a national organization it is strong enough to have legislation enacted for the protection of its members against the credit swindler, and in this respect it has been eminently successful.

It has also supplanted the guesswork formerly attendant upon making credit extensions with certainty of results. The *Association* maintains a *legal bureau* which furnishes without cost to its members opinions on legal

points that arise in the extension of credits. It also stands for friendly adjustments and its *adjustment bureau* offers every facility for making such adjustments where misunderstandings have sprung up, and this without breaking the long and hard built up chain of credit relationship.

But the greatest advantage that it offers to you is that its moral effect on the debtor is far reaching. The fact that your debtor's credit relations with you are the common property of some 23,000 other firms tends to make him straightforward and above board in his dealings with you and with your fellow members whether he is honest at heart or not. He knows that to break faith with you is to lose his reputation with all the other members of the *Association* many of whom are possible sources of credit.

The Analysis of a Credit Statement. A credit statement, either direct or indirect, must be carefully analyzed by the credit man before he can reach a definite conclusion as to whether an applicant is entitled to credit or not. Every item of a statement must be carefully weighed against the business situa-

tion in so far as it relates to the applicant, in order that the credit man may determine if he is warranted in extending him credit.

The first thing that must be done in analyzing a direct credit statement is to discount it at its real value. In discounting statements you will be safe if you follow these rules, namely, (1) discount 50% on all goods whose actual value is vaguely or indefinitely shown, or whose value is variable; (2) discount 10% as an allowance for shopworn, defective, and depreciative stock; (3) discount 10% for wear, tear, and depreciation in value on machinery; (4) discount 10% on notes and accounts held as a reserve for bad credits; and (5) discount 20% on open book accounts.

If now the assets still exceed the liabilities after this fair discounting of values you can then safely grant credit in proportion to the excess. See Fig. 29.

When analyzing a statement you must make sure (a) that the current and working assets of the applicant exceed the current liabilities, (b) that the current and working assets are in cash, or in securities that are readily negotiable and have a full cash value, (c) that due allow-

ance has been made for the payment of dividends on bonds and stocks, also for bad credits, and that their own debts have been written off the books entirely, (d) that the face value of the statements have been properly discounted, and finally (e) that the intentions of the applicant are honest.

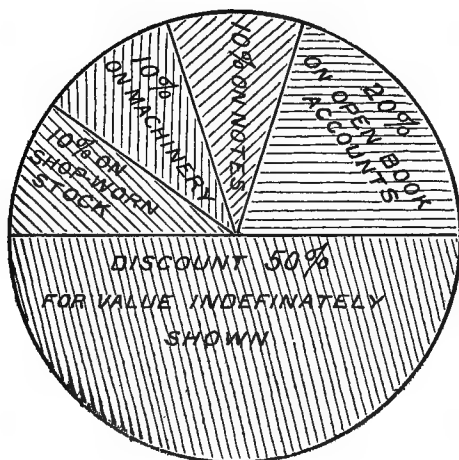


FIG. 29—ANALYSIS OF A CREDIT STATEMENT

The example herewith will serve to show how the assets, liabilities, and capital affect the credit standing of a firm.

From this you will see that the capital in the three firms is the same in amount but that *A* is the best risk because he has no liabilities

and \$10,000 in cash on hand; *B* is not so good a risk because his liabilities almost equal his

FIRMS

<i>Assets</i>	<i>A</i>	<i>B</i>	<i>C</i>
Machinery			\$20,000
Stock	\$20,000	\$40,000	20,000
Accounts	10,000	30,000	20,000
Cash	10,000	2,000	20,000
Liabilities		32,000	40,000
Capital	40,000	40,000	40,000

capital and his cash is low, while with *C* his liabilities equal his capital and he is therefore practically insolvent and hence must not be granted credit at all.

CHAPTER III

CLOSING IN ON THE DEBTOR

Credit Extension and Credit Collection—System in the Collection Department—When to Call in Credit and Collect—Kinds of Delinquent Debtors—Methods of Credit Collection—The Credit Department—Outside Agencies—On Squeezing Payments out of Debtors—The Court of Last Resort—How Credit Adjustment Agencies Work.

YOU have seen from what has gone before how the credit department extends credit and how it works. The credit department includes still another department for the collection of the credits it has extended and this is known as the *collection department*.

Credit Extension and Credit Collection. Now credit extensions and credit collections are so closely related in the operation of any business where credit is granted that it is not practical to have the two departments making them under separate heads.

For this reason the credit manager must manage not only the credit department but also the collection department. While this

seems to be an overload of responsibility to pile onto the shoulders of any one man, still it is absolutely important for several reasons, chief among which is that the success of both of these departments depends almost entirely upon the ability with and extent to which they are able to coöperate.

This follows as a natural sequence for the data collected by the credit department and its decision in regard to the credit standing of its customers is of the greatest aid to the collection department in the prompt collection of debts. If these two departments were under separate heads there would be left open a loophole which evil or cross purposes could slip through and this would defeat the very ends for which the departments are organized as far as effectiveness is concerned.

The one absolute necessity of a successful business is perfect coördination and coöperation between the sales, credit, and collection departments of the selling branch of the machine. For what does it avail the sales department to make sales, or the credit department to extend credit, if the collection department can't collect, or *vice versa*?

The purpose of the sales department is, of course, to make as many sales as it possibly can, while that of the credit department is to allow it to make as many sales as it possibly can *safely*. This means that it must act as a check upon the activities of the selling department and naturally this tends to cause friction where there must be none.

From this it is clear that it is of the greatest importance that the members of a selling force are instructed as to the true purposes of the departments with which it must coöperate so that all of the departments will form a perfect working whole. That this condition may obtain, the credit and collection departments must first of all be welded together into a single unit, that is, the policy of both must be identical and they must work to the same end. It has been found that the best way to accomplish this is to have the management of both departments under one head.

It cannot be denied that where the responsibility of both of these departments rests on the shoulders of one man it is quite heavy. To ease up the burden a bit these departments must be as efficient as they can be made so

that the manager can spend his time in settling the big credit and collection questions, shown in Fig. 30, that come before him rather than thrashing out the little inconsequential details of everyday routine.

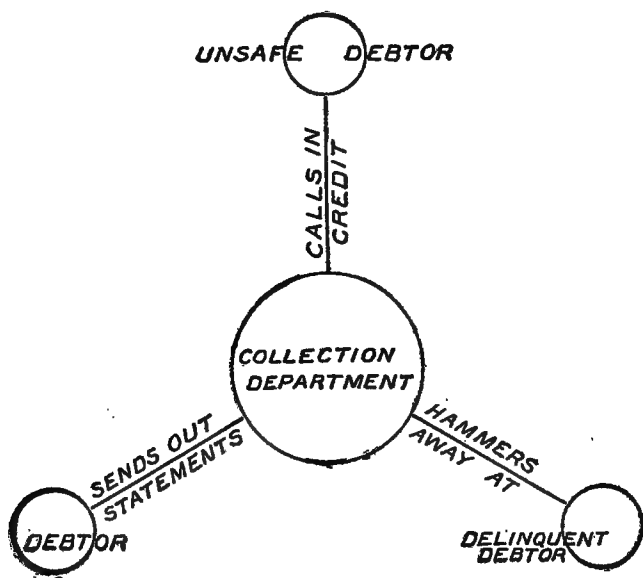


FIG. 30—THE THREE RING CIRCUS OF THE COLLECTION DEPARTMENT

To accomplish this the systems used in these departments must be simple, and at the same time accurate, so that the manager can immediately get hold of any piece of information

he wants and without the slightest trouble on his part.

System in the Collection Department. We have not got the space to go into all the details of a successful collection system but we will cover in a broad way the things that it embodies.

The following items are the important ones in the collection of credits that the manager must be able to find out with ease and dispatch, and these are (1) when the payment of bills falls due, (2) the credit standing of the debtor, and (3) the exact status of a collection at any given moment.

The collection manager must know when the payment of bills falls due in order to prepare for or be assured of their prompt collection. A knowledge of the credit standing of the debtor enables him to judge as to the promptness and certainty with which the debtor will pay and he lays his collection plans accordingly.

Not only must he know the rating of the debtor's business at all times so that he can tell whether the credit continues to be or not to be a safe proposition, but if he has reason to

believe that it is becoming doubtful he must be able to call in the credit and collect before it is too late.

And, finally, the system must provide a means to let the manager know the exact status of a collection at any moment so that he can determine the next prudent step to take to get the money. The use of the *tickler file* described in the preceding chapter will be found of the greatest service in this connection and in bringing the salient points of a collection before the manager when it needs his attention.

When to Call in Credit and Collect. We have already said that on certain occasions it becomes necessary. Now there are three specific cases when such drastic action will be necessary and these are (1) when the firm extending the credit runs short of funds, (2) when the firm extending the credit needs money to expand its business, and (3) when for some reason or other it is suspected that the debtor will fail to keep his obligations.

In the first two cases to call in credit must only be used as a last resort, that is to say, after all other means for raising money have failed. To call in credit on a good substantial account

means in the majority of cases that you will lose it in the future and, hence, it is clear that it would be poor policy to do so even though short of funds.

But when you find that an account is getting doubtful and there are good grounds for believing that the debt will not be paid, then there is only one thing left open for you to do and that is to withdraw the credit and do your best to collect. It is strictly up to the credit manager to decide initiative, and manipulation of the whole affair must rest entirely on his judgment of the situation.

One of the most common indications of a doubtful account is slow and reluctant payments which are as hard to get as pulling teeth. Of course the manager may scent danger long before this critical period arrives through some inside source of credit information.

Before closing out the account, however, a sure but often a quick investigation must be made. As we have pointed out before, for the credit man to close out a substantial account because of some groundless rumor or vague suspicion is for the firm to lose the account. Oppositely if he should fail to close

out when rumor or suspicion has a leg to stand on, the firm stands every chance of losing its money.

The first thing then that the credit man must do is to conduct a careful investigation, and this he can do in any one of several ways. Thus for accounts where only a small sum of money is involved it can be done through a *credit agency*, but for accounts where large sums of money are involved, the best procedure is for the credit man to conduct the investigations himself.

Sometimes he can do this through correspondence but often it is necessary for him to make a personal investigation and this is the way it is most commonly done. When on the actual ground where he can see the operations with his own eyes the credit man can find out many things which will either strengthen or weaken his *hunch* that the account is growing doubtful.

And he can do all of this without directly consulting the debtor and so causing harsh feelings if the account should prove after all to be strong. The advantages to be gained by this procedure are: (1) From a general survey

of merchandising in the town the credit man can feel the business pulse of the locality he is in; (2) from the debtor's local bank he can get a viewpoint as to how sound the debtor is; and (3) from the general news and talk about town he can get an insight into the debtor's character which has not been revealed previously.

The smaller the town the easier it will be for the credit man to get this information. But still he must realize that the last two kinds of information must be discounted and taken at their true values for frequently in a community folks are more than likely to grow a trifle short in their vision, and unable to read the signs that are as plain as the nose on his face to an outsider.

Kinds of Delinquent Debtors. This investigation will bring to light the fact that the debtor belongs to one of the following classes of delinquents, to wit, that (1) he is insolvent, (2) he is temporarily hard pressed, (3) he is careless, or (4) he is just naturally slow. Each of these classes requires a special mode of treatment in the collection of the debt.

With the first class there is only one logical course to pursue and that is to collect at once

by hook or crook and consider how you have done it afterward. Where the debtor is only temporarily hard-pressed and shows reasonable signs of rapid recovery the best policy is to let the credit run.

The debtor who is careless must be investigated thoroughly before taking any action; for if his payments are slow through carelessness the chances are his business is in the same fix even though he himself may not know or realize it. The fourth and last kind of a debtor is the kind whose inertia is so great that you've simply got to apply pressure to overcome it.

This class can usually be stirred into action by decisive correspondence and it is seldom advisable to call in the credit unless it is of course discovered that they are headed on a dead run toward insolvency, or unless it takes too great an effort to get paying action out of them.

Methods of Credit Collection. There are two methods in general use of credit collection and these are (1) through the credit department and (2) through outside agencies. When collections are made by the collection department they can be handled in two ways

(a) by correspondence and (b) by personal collection.

You have already seen the nature of good, strong selling correspondence in Part I, Chapter VII, *On Making Your Sales Through the Mails* and the collection letters sent out must be likewise strong, to the point, and give a heart to heart talk to the debtor, since they are to take the place of the absent credit man. Their aim should be to show the fairness with which you have dealt with the debtor and this being true you are entitled to fair play in turn.

It is a good plan never to let your debtor know that you are calling in credit because you have lost confidence in him, and don't let anyone else know it either. For instance if a couple of other credit men get to him first he will know that everybody is aware of his condition, and this is very apt to discourage him to such an extent that he will fail when otherwise he stands a chance of pulling his business out of the hole.

If you intimate your lack of confidence in his ability or intention to liquidate his debt, and should he then pull himself nobly out of the

hole and pay up, you will surely lose his future trade. The best policy is to indicate that your firm must have the money to carry on with.

The account though must never be allowed to drag along as this affords too great a chance to lose out entirely through the utter failure and final bankruptcy of the debtor. Your letters must be so logical and decisive that he can't get around, under, over, or through the arguments you offer.

Another phase of collection correspondence is the collection of debts at the time when payment falls due. Some collection departments send out semi-monthly statements on the 1st and 15th of each month. This is a poor plan for this reason: suppose a bill falls due on the 25th, then the mid-monthly statement brings it to the debtor's attention some ten days before the bill falls due, while the statement sent on the first of the following month does not bring it to his attention until payment is considerably overdue.

The only proper time to bring a bill to the attention of the debtor is the day the bill falls due so that when he receives the notice

he knows that it is time for him to pay immediately.

One of the surest means of getting prompt action from out-of-town debtors is to foot the bill with the statement that a "sight draft will be made on the debtor unless other form of payment is desired." If you do not include the alternative "unless other form of payment is desired" the statement would offend the customer and you might lose his trade.

As it stands, however, it gives your debtor the alternative, and if he does not reply to this notice within a reasonable time you can take it for granted that he prefers to pay through sight draft collection. If, however, the debtor fails to recognize the sight draft when sent to his local bank then more drastic means must be taken for the collection of the bill.

On Squeezing Payments out of Debtors. It is often possible to get a debtor to pay off his debt in small payments where it would be useless to try to get him to liquidate the debt all at once.

Where a credit man gets wind of a debtor's impending doom, and pursues this policy,

the debtor will usually pay because it keeps his credit good with other firms he is doing business with. When a debtor begins to go to pieces the credit man who is the first to scent the danger is the one who gets all of the money that is coming to him. To the slower credit men, however, is left only the pickings.

Still another means for getting money out of an obstinate debtor is to get him to give you a 30 or 60-day note, take it to his local bank and have it discounted and cashed. This scheme will work, as a rule, because the bank is right atop the debtor, so to speak, consequently it will have him focussed in the blind spot of its retina and hence will not sense his failure as has the wily credit man.

The Court of Last Resort. The last resort in the collection of a debt from a delinquent debtor is to try to recover the money by legal means. Now there are two classes of delinquent debtors (1) the honest failure, and (2) the fraudulent debtor.

With the first class of delinquents their intentions are good but their business ability was bad. Since the latter is not a crime, though admittedly inconvenient all round,

don't be too hard on them for they have done their best and no one can do more.

But the second class never intends to pay and are intent on beating you out of your money. Crooks of this caliber must be made to pay in full or be prosecuted to the fullest extent that the law affords, for in this lies the only protection of the creditor against fraud.

When it becomes apparent that a debtor won't pay up the only redress you have is to place the collection in the hands of an attorney. The latter can either be an outsider or he may be a part of the collection department's organization. As a rule the big firms employ a house attorney but where this is done it is the best policy not to let it be known that he is in any way connected with the firm.

Usually a letter from an attorney will suffice to bring forth a settlement or liquidation of the debt where half-a-dozen from a credit man will fail. Where the debtor is an honest failure and simply can't raise the full amount, it is better to accept a compromise or partial payment than to drag the matter into court as this is always a costly proceeding and not always a satisfactory performance. The fraud-

ulent debtor, however, should be forced to pay in full or else dragged through the courts on general principles.

How Credit Adjustment Agencies Work. Still another way to collect a debt is through a credit adjustment agency. These work their collections in much the same manner as a well-organized collection department of a firm.

These agencies give firms that are doing a small credit business, and which have no organized collection department of their own, the benefit of a trained force, and collections placed in their hands are made for a small percentage of the amount collected.

Moreover firms having collection departments can make use of them to advantage in (1) collecting debts so small that the collection department could not profitably take up its time with them, and (2) in collecting out-of-town debts that are hard to reach.

The credit adjustment agency tries to collect a debt by means of correspondence of the kind just described, and failing in this it will turn the collection over to a *bonded lawyer* who represents it in the town where the debtor has his business.

Credit adjustment agencies are much harsher in their treatment of a debtor than the collection department of a firm, for the former has as its sole object the collection of the debt and goes after the debtor rough-shod, whereas the collection department tries to get the money and at the same time to hold and build up future business.

Part IV

Business Wisdom

CHAPTER I

RAISING AND INVESTING MONEY

How to Raise Money—Forming a Partnership—Organizing a Company—How to Invest Your Money—Making Your Money Make Money—An Investor Versus a Speculator.

THE subject of finance covers so large a field it would take a book of this size to even scratch the surface of it. All that we can do here is to give you a few useful hints on (1) how to raise money to start a factory for turning out a patented product, as this is one of the most common beginnings of a business, and (2) how to invest money so that it makes more money for you.

How to Raise Money. We have written this chapter on the supposition that you have a patented article which you want to manufacture and market. About the first thing that a man runs up against in starting a manufacturing business is the proposition of raising sufficient capital to cover the cost of production and merchandising. This includes the cost of

machinery, raw materials, power, labor, selling, advertising, in fact everything until the product is finished and sold to the jobber, wholesaler, retailer, or consumer.

As an example we'll assume that you have a patented product which you want to make and market but that you haven't got the wherewithal to do these things on. This is a common everyday occurrence but fortunately, it is usually easy to solve and this is the basis on which many great industries and big fortunes have been built up.

Now there are several ways you can go about getting capital to start a business and among these are (1) to go into partnership with one or more men who will finance it, and (2) to form a company and float its stock.

Forming a Partnership. The best but usually the hardest way to get your proposition going is to interest a man or men who has or have enough capital and confidence in your proposition to back it up. To get in touch with men of means is nearly always a hard thing to do and to interest them is still harder though you can do it if you go about it in the proper way.

Just as a salesman must have a clever introduction and put up to his prospective customer a strong selling talk, so you must have an interesting and profitable argument to hand the capitalist, for what you are really doing is selling him your product—the product of your brain. But be careful you don't talk him to death for this is a failing that most inventors have.

One way to get an introduction to a capitalist is through your attorney, and if he is the one who has organized your company he will know all about the merits of the whole scheme. He will be able to put you in touch with the men in your town who have capital. With introductions from him you will stand a fair chance to get them to back you in your new enterprise.

Your attorney is by no means your only means of meeting moneyed men for you can often go to your banker, the merchants you deal with, and even the clergyman of your church, and get introductions through them to men who are likely to take up your ideas.

Finally advertising agencies will sometimes furnish you with introductions, especially if

they see that your scheme needs a big advertising campaign and that they stand a good chance of handling your account when you connect with capital.

A few advertising agencies which have large working capital promote schemes that they have confidence in themselves. Only in such a case they will tie you up with a long-time contract calling for the appropriation of a heavy percentage of your profits for advertising, which must go through their house.

Organizing a Company. Another way to raise money is to organize a stock company. To do this go to a corporation lawyer and have him organize and incorporate a company for you. Such a company will put your manufacturing and merchandising scheme on the map and from this time on you are eliminated as an impecunious factor, and your proposition begins to take on a businesslike air.

While the mere incorporation of a company will not bring any money into its coffers with which to begin operations it will enable you to raise the initial capital more easily and quickly than any other way. The actual money is obtained from the sale of the stock

of the company and the assets of the latter consist entirely at first of the patent you have turned over to it.

How to Invest your Money. The business man of to-day is not merely content to make money out of his business but he wants the money he acquires in this way to make more money for him—quite a natural and proper desire. But this is the place where many successful business men lose their money, that is to say, through their ill-advised efforts to make their surplus capital earn more money.

Making your Money Make Money. The only absolutely safe way to do this is to deposit your money in a savings bank where you will draw anywhere from 2% to 4½% interest. If, however, you are of an investigating turn of mind this seems like a beggarly low rate of interest when there are so many other kinds of investments which pay much higher rates.

And this is just where a lot of men fall down and lose out. They fail to realize that the higher the rate of interest paid on an investment the greater the chances they are taking with their money. While it is well to be conservative still it is not a good scheme to be so

conservative that you close your eyes to everything that comes along, but you must be discriminating.

An Investor versus a Speculator. Now let's see what the difference is between an *investor* and a *speculator*. An investor is a man who loans his money out on first mortgages, bonds, and listed stocks and to enterprises which have proved by past performances that they are thoroughly reliable. The investor is content with from 4% to 8% return on his money and usually he finds 6% quite satisfactory. The investor is a *sure-thing* man, or in the parlance of the sporting fraternity he is a *tin-horn*, that is, he never loses out.

A *speculator* invests his money too but differently from an investor; he is a gambler at heart and he is willing to take a gambler's chance. He disregards the laws of certainty and, hence, forfeits safety in his desire for higher rates of interest on his money. Unless he is a man of great financial genius or unless he is exceedingly lucky, it's a ten to one shot that he will lose his money.

So strong is this desire to obtain a high rate of interest that after the average man has

made a few sound investments he begins to speculate and this is usually the beginning of his finish. To play safe be an investor but never a speculator.

There are four kinds of investments which the inexperienced investor can safely make. The first is the savings bank and while this is the safest kind of an investment the disadvantage is that it very seldom yields more than $3\frac{1}{2}\%$ to $4\frac{1}{2}\%$.

The second is buying bonds, but before you buy bonds you must have them investigated and this your bank will do for you. Just as thorough an analysis is necessary in buying bonds as in extending credit to the firm that sells them. The chapter on *Inside Credit Information* contains practically all of the points that you want to know about before buying bonds.

When you buy bonds get *short-term bonds*, that is, bonds that you can realize on in a short time. Bonds which run longer than ten years are not as a rule a good investment for an inexperienced investor to buy. The longer the time element the less the safety factor becomes. For this reason bond analysis of

future conditions is even more important than credit analysis of future conditions, for credit seldom extends over six months while bonds run for years.

As an investment *first mortgages* are quite like bonds, and, as a matter of fact this is what a good bond consists of. In buying first mortgages and bonds there is small chance for loss if you have made a thorough investigation first. The interest on all bonds, except *income bonds*, can't be stopped and consequently they are as safe as a bank.

Finally we come to stocks as an investment and right here let us say that of all the varied forms of investment that of buying stocks requires the most careful investigation and analysis. You will find on the market all kinds of stock from the *unlisted wild-cat* stock of an unknown oil-well company that sells at 10 cents a share to the A No. 1 *gilt-edged stock* of the big steel company that sells at away above *par*.

To purchase stock in a good, reliable concern that has stood the acid test of rigorous investigation is not speculation but sound investment. To buy stock in any other kind of a concern or

under any other conditions is speculation and you stand to lose, for the directors always have the privilege of stopping the payment of dividends. Moreover, if the concern you invest in is inherently unsound or is selling in an unsound market it may break at a critical moment and then of course you lose your whole investment.

To sum up, don't invest in anything that you have not investigated or analyzed, or had some one who is competent do so for you, as thoroughly as if you were extending credit to the concern, and you will safely be able to make your excess capital make money for you.

CHAPTER II

THE LOST ART OF MAKING A PROFIT FOUND

The Lost Art of Making a Profit—Why Merchants Fail—The Wrong and Right Ways to Figure Profits—What Overhead Charges Are—The Long Easy Credit Evil—The Open Book Account Evil—Weak Points in the Open Book Account System—What Trade Acceptance Is.

The Lost Art of Making a Profit. We have been through a good many manufacturing plants and retail stores where everything was hustle and bustle, where the highest priced experts that could be obtained were employed and where on the bright surface everything looked prosperous.

Yet on a close examination into the finances of the firms, we were surprised to discover that the valuable art of making a profit had been lost. Perhaps you in your business may have lost, if not the whole of this art, then perhaps a part of it.

It is our aim in this chapter, therefore, to cite a few points which often make the mer-

chant lose his legitimate profit, and which may make him operate at a loss for some time and end up with bankruptcy staring him in the face. This unfortunate state of affairs happens more often in the retail business than in any other, and it has been calculated that out of every one hundred retailers who start in business ninety-five fail because they never knew, or else had lost, the art of making a profit.

Now ninety out of every ninety-five retailers that fail do so because they have the wrong idea of the calculation of profits. In all other respects they are progressive and if it were not for this one great failing they would probably have kept afloat.

The misguided retailer makes his mistake in the calculation of profits in that he figures the *operating expense* and *net profit* on the *cost price* of an article as a basis, when as a matter of fact operating expense and net profit in the retail business can only be calculated rightly by using the *selling price* of the article as the basis of computation.

The Wrong and the Right Way to Figure Profits. To illustrate this point let's take the

following problem which is the one that the merchant has to solve every day. If you buy an article for \$1.00 and want to make a net profit on it of 10% above your total operating expenses of 25%, what price must you sell the article for?

Give this problem to any retailer who has failed and he will instantly add the 25% and the 10% to the cost of the article and give you the answer as being \$1.35. This is the reason he failed.

The successful merchant uses the following rule for the calculation of profits. From 100% deduct the sum of the operating expense and the net profit you want and *divide* the cost of the article by the difference obtained, when the quotient will be the price the article should be sold at.

Thus the successful merchant gets his selling price of an article by means of the above rule as follows:

From 100% he deducts 35% (that is 25% plus 10%) and this leaves 65%. Dividing 65% into 100% he has \$1.54 as the selling price of the article. You can now readily see why the merchant who calculates the selling

price of the article in this problem as \$1.35 soon makes a total and complete failure of his business.

After a few months of such costly selling he wakes up some morning to find that his capital has dwindled and shrunk until he has to close up shop, or his creditors do it for him.

Now let's go a little deeper into the problem of which we have shown you the incorrect and correct solutions. There are three chief things that the profit on any article must cover if the merchant is to be protected against loss. These are: (1) overhead expense; (2) interest on the capital invested; and (3) contingencies.

The expenses of the first two of the above items can be accurately ascertained. The last item, however, is the one that causes the merchant the most trouble, for it depends on several extremely variable and unforeseen conditions, hence its accurate calculation is practically impossible.

What Overhead Charges Are. Overhead charges comprise the following expenses, all of which can be accurately determined beforehand; named, these are: (1) rent; (2)

insurance; (3) wages; (4) advertising; (5) light and heat; and (6) freight. The interest on the capital invested can also be accurately calculated.

The contingencies, which comprise the following expenses, are, however, impossible to calculate with any degree of accuracy, and these are: (1) natural depreciation of stock; (2) losses through bad debts; (3) dishonest employees; (4) inefficient overbuying and poor buying; and (5) backward seasons.

The three big points enumerated above, that is, overhead charges, interest on capital, and contingencies, are known as the *total operating expenses*, and the first solution of the problem, *i.e.*, \$1.35, will enable the merchant to cover them and make a profit provided his contingency expenses are not more than 10%. Should his contingencies exceed 10% they will eat into his profits and should they exceed 20% he will be operating at a loss and on the rocky road to bankruptcy. A selling price of \$1.54 however amply provides for contingencies.

The Long, Easy Credit Evil. We now come to the long, easy credit evil, which next to improper calculation of profits is the most

prevalent cause of the failure of the retail merchant.

In the early days of business, when banks were few and currency was scarce, long time credit was often a necessity, but now in these days when the banking system has been developed to a point approaching perfection and when the coin of the realm is plentiful, it is an evil of the retail business rather than an aid to it.

To the end that you can see just how long, easy terms of credit help to ruin the unsophisticated merchant let us follow the chain of circumstances that naturally accompany the extension of such credit. J. C. Martin is a retail grocer in a Massachusetts town and he buys his stock from the *Bay State Wholesale Grocery Company*.

Since this wholesale company has unlimited capital it grants to J. C. Martin long, easy terms of credit, which pleases the retailer but it makes him do two things which he shouldn't do, namely: (1) he overstocks, and (2) he in turn grants long, easy credit to his customers.

He soon reaches the point where at the end of the month he is carrying 200% and upwards

of his month's business on his books. Then comes a local financial stringency and his customers either move away or can't pay him, with the final result that J. C. Martin is a total bankrupt.

Of course the blame for J. C. Martin's failure rests mostly on his own shoulders. He should have insisted right from the start with his customers on short credit, and he should have made his customers pay their bills when they fell due. Again he never should have carried more than 80% of his business on his books at the end of the month.

But the *Bay State Wholesale Grocery Company* is really as much to blame for J. C. Martin's failure as he is, and perhaps more so, for since he is a small merchant with no former merchandising experience he looked to the wholesaler, who has unlimited capital, to set the example in the matter of credit. The example the firm set, which was long, easy credit, ruined him for he failed to realize the advantage that a large working capital gives.

We have told you this all-too-true story of the small retailer so that you will not make the

same mistake that J. C. Martin did. Buy your goods on discount terms, sell on short credit, and collect your bills promptly. You will find that this policy will not make you lose but will gain customers for you, and the few that do drop out because your methods are too businesslike to suit them will be supplanted by others who see the merit in doing business in a businesslike way.

Further the few customers you will lose through this policy are always the unreliable ones, who would drag you to your ultimate ruination anyway. We repeat—cut out the long time, easy credit business that has a strangle hold on you and be a success.

The Open Book Account Evil. And finally we come to the last great evil that the retailer has to contend with and this is the *open book account system*. This system of granting credit has been in common use for years and, unfortunately, it has been permitted to exist without molestation.

It was only five years ago when the war started that any serious thought was given toward checking it. Certainly of the many

beneficial results of the war the solution of the open book account problem is not the least. This solution which we strongly advocate was made possible by the Federal Reserve System and it has changed our inadequate and unorganized financial system into a smoothly running piece of financial machinery.

Weak Points in the Open Book Account System. Before we go on and tell you how the problem of the open book account was solved, and the solution of which is the last word in financial and credit progress, we'll point out a few of the abominably weak spots in the old book account system which have been the indirect cause of ruining merchants ever since the system originated. These are: (1) the open book account has no definite date of payment; (2) the open book account ties up your capital for a length of time that is determined not by you but by your customer; (3) the open book account is often hard and expensive to collect because of the abuse of sales terms, extensions in time, and collection correspondence; (4) the open book account is not easily negotiable, hence it cannot be turned

quickly into available cash; (5) the open book account is discounted 50% of its face value because it only shows the approximate liquidated value of the assets; (6) the open book account fosters the deferment of credit liquidation; (7) the open book account permits the goods to be returned; and (8) the open book account provides you with no adequate evidence of sales and it is legally lax.

The above are only a few of the many bad features of the open book account system and upon any one of these points can hinge your failure.

What Trade Acceptance is. The modern credit vehicle which was introduced under the Federal Reserve System is known as trade acceptance and it not only does away with the evils of the open book account system but it helps you in many other ways in the conduct of your business and assures you of success.

A trade acceptance is shown in Fig. 31 and you will observe that it is entirely unlike either a sight draft or a promissory note. It has the following distinctions from a note,

viz.: (1) a note is always drawn by a person, while a trade acceptance is drawn by the buyer, and (2) a note is used to indicate the borrowing of money, whereas a trade acceptance is the direct evidence of the *sale* of goods and of prompt payment.

You will see that the trade acceptance shows on its face that it is drawn on the debtor for the buying price of the goods sold and signed by the merchant when the debtor signs his name to it, it shows that it has been accepted and it then becomes legal tender for the payment of the debt.

Now let's see just how you use trade acceptances in your business. On selling a bill of goods to a customer you ask him to sign a trade acceptance for the purchase price of the goods. If the goods are for ordinary purposes the acceptance will run from thirty to ninety days but if for agricultural purposes it may run for six months.

After signing the acceptance yourself you will then take it to the bank and get it *cash*ed, the rate of discount for this service being $\frac{1}{2}$ of 1% lower than such service is on a promissory note. This is because the bank can dis-

No. <u>59</u>	TRADE ACCEPTANCE	\$ <u>1,000</u>	 Alexander Brothers Philadelphia June 1, 1918.
----- ON SEPTEMBER 1st, 1918 ----- after date pay to the order of -----			
----- <u>Ourselves</u> -----			
ONE THOUSAND -----		NO/100 ----- Dollars	
THE OBLIGATION OF THE ACCEPTOR HERETOY ARISES OUT OF THE PURCHASE OF GOODS FROM THE GRANTEE.			
To THE POWER TRANSMISSION COMPANY		Alexander Brothers	
BOSTON, MASS.		-----	
-----		Treasurer	

Date <u>June 5, 1918</u>	Accepted <u>[Signature]</u>	Bank where Payable <u>First National Bank</u>	Place <u>Boston, Mass</u>	Acceptor <u>THE POWER TRANSMISSION CO</u>
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FIG. 31—A TRADE ACCEPTANCE

count the trade acceptance at a *Federal Reserve Bank* at a lower rate of interest than it can a promissory note. In this way you make your sale and get your money immediately; your sale does not drag along on your book accounts for it is the banker who makes the collection. See Fig. 32.

Now let's see some of the advantages of the trade acceptance system, viz.: (1) the customer will pay trade acceptance promptly in order to keep his credit good at the bank; (2) the trade acceptance converts your accounts into immediate cash and releases your capital, thus building a firmer foundation for your business; (3) the trade acceptance takes the banking business out of your hands and puts it in the hands of the banker where it belongs; (4) the trade acceptance makes it unnecessary for you to borrow money; (5) trade acceptances are *two-name* papers and hence better legal tender than single-name papers, consequently they can be discounted cheaper at banks; and, finally, (6) trade acceptances minimize your collection costs.

Put this system into use with your customers and it will start you roaring along the

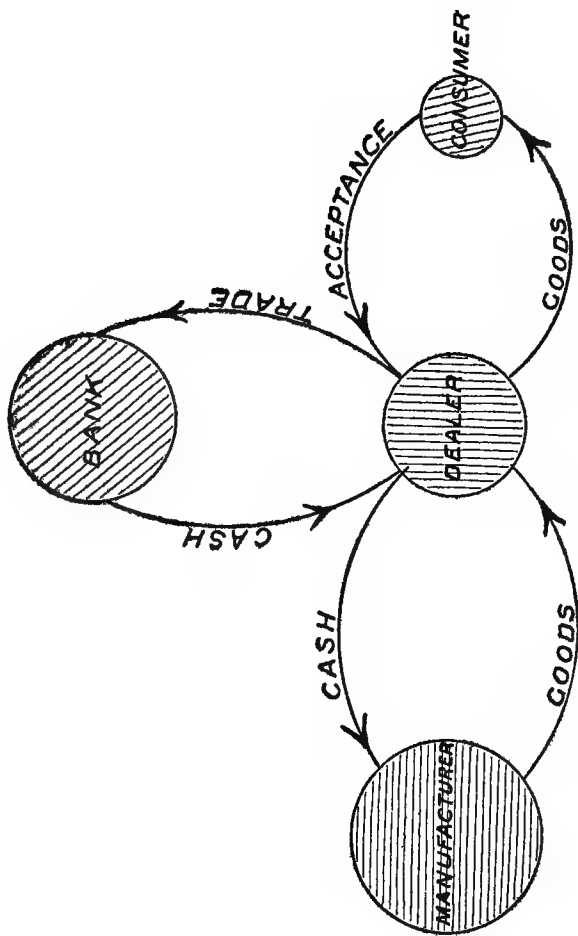


FIG. 32—HOW THE TRADE ACCEPTANCE SCHEME WORKS OUT

road to prosperity. It is now being used throughout the length and the breadth of the country by the largest and most successful merchants and by following their example you can be one of them.

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